APRIL 1956

The Mortgage Banker

Another year of MBA regional meetings begins, as usual, with the Midwestern Mortgage Conference in Chicago. Vice President John F. Austin, Jr. and President Lindell Peterson with King Upton, a speaker on interim financing at the meeting and Delmar Beaumont, Chicago, Conference chairman. For what was said, see page 46

MORTGAGE BANKERS ASSOCIATION OF AMERICA MBA ORGANIZED 1914

in this issue — — — — — — — — — — —

NEW LOOK AT THE CONVENTIONAL LOAN ★ HOW TO GET A CHURCH LOAN ★ PROGRESS WITH PRE-FABS ★ SHOULD WE DIVERSIFY?

MBA 1956 Calendar

April 5-6, Southeastern Mortgage Clinic, Hotel John Marshall, Richmond

April 7, Board of Governors Meeting, Dinkler-Plaza Hotel, Atlanta

April 9-10, Southern Mortgage Conference, Dinkler-Plaza Hotel, Atlanta

April 30-May 1, Eastern Mortgage Conference, Commodore Hotel, New York

May 10-11, Southwestern Mortgage Clinic, Hilton Hotel, Albuquerque

May 14-15, Western Mortgage Conference, Fairmont Hotel, San Francisco

May 17, Mortgage Servicing Clinic, Olympic Hotel, Seattle

May 18-19, Northwestern Mortgage Clinic, Olympic Hotel, Seattle

June 24-July 7, School of Mortgage Banking, Courses I, II and III, Northwestern University, Chicago

July 16-17, Educators Conference, University of Colorado, Boulder

July 29-August 11, School of Mortgage Banking, Courses I and II, Stanford University, Stanford, California

October 8-11, 43rd Annual Convention, Conrad Hilton Hotel, Chicago

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DIRECTORY IS OUT

By now members have received their copy of the 1956 Directory of Members. It's the largest yet published, contains more listings than ever before and more informative data. Check to be sure your copy arrived; and if for any reason you don't have it, advise the national office. Additional copies are available, to MBA members only, at $2 each. A reminder to members of Directory policy: it's available only to members, is never sold or distributed to outsiders and is published exclusively for the use of those who comprise the Association.

The Mortgage Banker

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PUBLISHED MONTHLY BY THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

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Washington Office
1001—15th St., N.W., Washington 5, D. C.

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Volume 16 — APRIL, 1956 — Number 7

Contents

FOR PROVEN HOME VALUE

SEE THIS bride's

Somewhere near you, the middle of this month, United States Steel Homes Dealers will be drawing crowds to see the Bride's House of 1956. It will make news—bigger news than the Bride's House made last year. Because the word is getting around. People like them. Last year, similar openings sold over 2,000 homes worth about $30,000,000. This year, more people than ever are being alerted to the extra values in the Bride's House and other homes manufactured by United States Steel Homes, Inc.

house THIS MONTH!

ADVERTISING, PUBLICITY, AND LOTS OF SALES

People will see these homes in *Life Magazine*, April 16; in *Living for Young Homemakers*, May; in *Parents'* Magazine, May; in *Small Homes Guide*, Summer-Fall issue; and in House Beautiful's *Guide for the Bride*, Summer Issue, where the home will be featured prominently in the editorial pages. The BRIDE'S HOUSE will be shown to nationwide television audiences on the United States Steel Hour. Local advertising in Sunday Newspaper Supplements on April 22 will move buyers out to see these homes. *You* be sure to see them too.

YOU WILL WANT TO SEE THEM

This is a good chance for you to see these homes and check their quality for yourself. And get the average buyer's reaction to them! See for yourself the quality products, quality planning, and quality construction that make these United States Steel Homes such good buys. See why these homes have been accepted for VA and FHA financing, and are acceptable to code writing bodies in 44 states.

Do us, and yourself, a favor.
See the Bride's House of 1956.

United States Steel Homes, Inc. now manufactures a complete line of quality prefabricated wood churches.

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. . . and no wonder! Planned for maximum privacy and smooth traffic flow, the "Starlighter" is made to order for the family ready and able to stretch out into roomy, casual living. It's first in Thyer's "over — $20,000" Suburban Series.

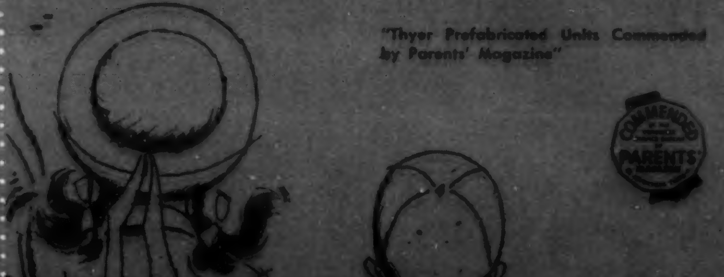
As in every Thyer home, quality materials and careful attention to construction details have been incorporated in the "Starlighter".

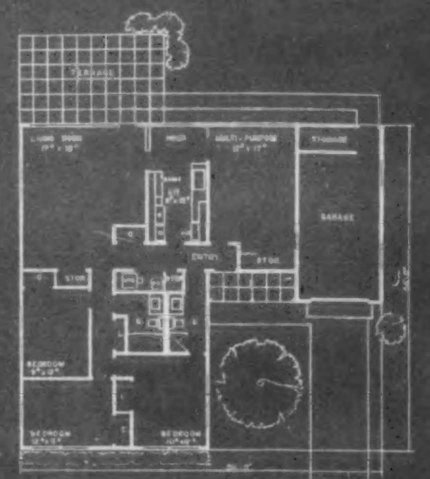
Built-in livability and quality construction like this never lose their appeal . . . or their value; a "Starlighter" will be just as saleable 15 or 20 years from now. You can rest assured that the full value of your investment will be perpetually safe.

Up fast and sold fast, Thyer Homes assure you a fast dollar turnover on construction loans.

For further information on the "Starlighter" fill in and mail the attached coupon today. (The "Starlighter" is currently available in Northern States. For houses in Southern and Gulf Coast States write Thyer at 515 E. Yazoo St., Jackson, Mississippi).

"Thyer Prefabricated Units Commended by Parents' Magazine"





"Starlighter" N-1 (non-basement)

1672 sq. ft. (including garage), 3 bedrooms — 2 baths — the entire house turns around a central control point — the kitchen. Note the versatile multi-purpose room ideal for either active or inactive recreation. 2 other floor plans available — one with basement and multipurpose room; the other with basement and breezeway.

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Gentlemen:

Please send me complete information on the new Thyer "Starlighter".

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ADDRESS ______________________

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Four Things You Can Count on During the Next Ten Years

By DR. SUMNER H. SLICHTER

Few if any decades in the past—in this country or any other—have seen so many profound changes as Americans have witnessed in the past ten years. The next ten? Few would be so bold today as to lay out a precise pattern for the decade coming up. Dr. Slichter, the distinguished economist, could cite a host of predictions for the next ten years which he thinks are sound, but what he actually does is narrow them down to four which he is convinced are pretty sure bets.

TODAY, when the country is enjoying unparalleled prosperity, what can we see ahead for the medium term—say, the next 10 years?

The last 10 years have been a period of extraordinarily rapid change. Ten years ago the atomic bomb was less than a year old, and the hydrogen bomb had not been developed. There were no electronic computers, no transistors, and no radio-active isotopes were available for experimental work. In the last 10 years the number of cars and trucks on the roads has roughly doubled, and the number of revenue passenger miles flown by commercial airlines has roughly trebled. Even since 1948 the production of anti-biotics has increased about nine-fold, of air-conditioning units about seventeen-fold, frozen foods by nearly three-fold, and television sets by over six-fold.

Expenditures on scientific and technological research, expressed in terms of dollars of constant purchasing power, have more than doubled in the last 10 years.

The coming decade will be a period of *equally rapid change*. We can be sure, for example, that rapid progress will be made in weapons of de-

struction, especially guided missiles, and at the end of another ten years the human race will be better able than ever before to destroy itself.

But let us look at a few of the principal trends that may be expected. I have singled out four:

» *The cold war will continue.* This is an underlying conclusion of considerable economic significance. It means that defense expenditures will remain high and will tend to increase. It also means that technological research will continue to be supported on an enormous scale by the government, and that technological change in industry will be accelerated by technological discoveries and developments produced by the defense program.

No end of the cold war is in sight. Unsettled conditions in many parts of the world invite a struggle between Russia and the free nations of the West. For example, the withdrawal of the British, Dutch, and French from India, Egypt, and other places in the Far East creates a sort of vacuum in those regions, and the gain in the strength of Russia and China means that these countries will attempt to move in where Britain, the Netherlands, and France have moved out.

Were one side or the other rapidly winning the cold war, one might be justified in predicting an early end. Thus far, however, the cold war has resulted more or less in a draw, and it would be unrealistic for the United States to expect much better results in the immediate future. Russia and her associates have an enormous advantage—in large parts of the world their objectives are satisfactorily achieved by fostering discontent, misunderstanding, and prejudice between countries and by encouraging disorder and disturbance—in short, by subversion. In the same countries the objectives of the free countries of the West can be achieved only by encouraging understanding, stability, and economic development. It is much easier to foster discontent and disorder than it is to promote economic development.

The tactics of the United States in the cold war, both under the Truman Administration and the Eisenhower Administration, leave much to be desired. We have allowed ourselves to be presented to the rest of the world primarily as the home of big business and the exponent of industrial efficiency. We have reason to be proud

of our big business and of our efficiency, but these achievements lack human appeal and the peoples of other countries do not yearn for them. But the United States has developed far more successfully than any other country two institutions than do possess strong human appeal. These institutions are the family-owned and operated farm and the free trade union—open to workers of all parties and creeds, free of domination by the government and able to concentrate its efforts on representing the day-to-day interests of the workers.

The family-owned and operated farm has been made so efficient in the United States that its very efficiency has created a problem of too much production — a problem that many other countries would be only too glad to have. The family-owned and operated farm may not be the best way to produce all kinds of farm products under all kinds of conditions, but it is the best way to produce a wide variety of crops and it can provide hope for a good living to hundreds of millions of people all over the world.

The free trade union, though not without shortcomings, is the best device that men have thus far developed for handling the day-to-day problems of the workers on the job, for seeing that workers get fair treatment from their bosses, and a good share in the gains from growing productivity. The foreign teams of trade unionists who visited the United States were invariably impressed by the completeness and vigor with which the trade unions of this country represent the interests of workers—particularly at the local level. If the United States were thought of around the world as a champion of the family-owned and operated farm and of the free trade union, rather than mainly as an exponent of big business and efficiency, our influence with the underprivileged peoples of the world would be substantially enhanced.

» *Technological change will grow at an accelerated pace.* To begin with, we are limited in putting to use the knowledge that we already possess by an insufficiency of engineers and other technicians. Some progress in overcoming this shortage is being made. Thus, engineering school enrollments have increased from 165,637 in 1951-52 to 243,198 in 1955-56*—a gain of almost 50 per cent.

The rapidity of technological change will be increased by the fact that the decade starts with considerably more partly finished research on the way to becoming commercially applicable than was on hand immediately after the war. The best way to make a rough comparison of the volume of unfinished research at the beginning of the two periods is to compare the number of man-years devoted to research just prior to the beginning of each period. In the ten years 1946 to 1955, about 1,600,000 man-years were devoted by scientists and engineers to scientific and technological research and development; in the previous ten years from 1936 to 1945, about 837,000 man-years were devoted by scientists and engineers to research and development. In other words, nearly twice as many man-years have been devoted to research and development since the end

One of two banks of silos used for storing cement at Lehigh's Portland Cement plant at Bunnell. Total storage capacity—390,000 barrels.

Digging and screening shell at Bunnell. In its natural form coquina is a soft rock formation of partially broken sea shells and coral mixed with sand. Most of the sand is removed in the screening process.

FLORIDA COQUINA SHELLS MAKE FINE

CEMENT . . .

COQUINA, one of Florida's oldest building materials, is the basic raw ingredient being used by the Lehigh Portland Cement Company at Bunnell, Florida.

Coquina, a soft, rock formation composed of partially broken sea shells, was used by the Indians before the Spaniards came to Florida. The walls of Castillo de San Marcos and other old structures built by the early Spanish settlers in St. Augustine, were fashioned from blocks of air hardened coquina.

Lehigh is keeping pace with Florida's growth by supplying cement *made in the state from a native raw material.* The Bunnell plant, on completion of the current expansion, will have a rated capacity of 3,000,000 barrels of cement annually—more than double the original output of four years ago.

Thus, Florida becomes more self-contained with each passing year . . . the integrated production of cement for use within the state is another step toward industrial independence. FLORIDA OFFERS MORTGAGE DOLLARS MANY OPPORTUNITIES TO PARTICIPATE IN THE INDUSTRIAL EXPANSION OF A GREAT STATE WITH A GREAT FUTURE NOW IN THE MAKING.

STOCKTON, WHATLEY, DAVIN & COMPANY

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of the war than during the previous ten-year period.

Finally, technological change will be accelerated by rapid growth in our new industry of discovery. Research is a separate industry—an industry engaged in the production of knowledge. Although much of the research is done in laboratories which work for particular enterprises (and are, therefore, in the nature of captive plants), most of the knowledge soon becomes generally available and thus broadly contributes to growth in the productivity of industry and the improvement of products.

The demand for new knowledge greatly exceeds our capacity to meet the demand. The principal factor limiting the growth of discovery is the number of trained and qualified scientific and engineering personnel. The number of such persons has been growing rapidly, but it is uncertain how rapidly we shall be able to increase the number of engineers and scientists in the immediate future. During the five years, 1948 to 1953, the increase in the number of engineers and scientists engaged in research was about 59,000. In the previous five years, from 1943 to 1948, the increase was 36,000, and in the next earlier quinquennial it was slightly less than 36,000.

Will it be possible to continue to increase the number of engineers and scientists engaged in research at the rate of about 12,000 a year? The answer is probably "Yes," but it will not be easy to make the needed additions to the engineers and scientists. An important handicap is that the high schools as a whole are not well equipped to prepare students for science and engineering courses in the universities. An encouraging development is the growth in the number of Ph.D's granted in mathematics, physics, and chemistry. In the period 1935 to 1939, Ph.D's granted in these three subjects averaged 703 a year. By 1950 the number had more than doubled (it was 1,471), and it has slowly increased until in 1954 it was 1,725—an alltime high.

The long-run growth of knowledge is limited by the slow rate at which the universities are able to offer additional permanent positions to teachers and research workers. The slow growth in the number of permanent university jobs extends to all fields—physical science, biological science, and social science. There is far more money available to finance research than there are persons to do the research. The very limited ability of the universities to increase the number of their permanent teaching and research staffs is of concern to the entire country because universities are the places best adapted for carrying on the sort of research that has no immediate applications but which provides the foundation for new de-

velopments in technology. There is no doubt that, if the universities had more permanent research positions to offer, they would be able quickly to fill these places.

›› *The country will construct a great system of interstate highways.* During the next ten years the United States will need to provide roads and parking space for about 30 million *more* cars and trucks. It is proposed to spend during the next ten years about $27 billion on 40,000 miles of interstate highways. The cost will probably exceed the estimates. The new highway system will have profound effects upon the locations of plants and warehouses and the operations of industry. And the execution of this enormous construction project will have powerful repercussions on the economy. It will create strong demand for many kinds of machinery, materials, and labor and hence will have a strong tendency to raise prices and wages.

›› *The use of consumer credit will continue to expand rapidly.* During the last ten years the volume of consumer credit outstanding has increased by around $30 billion. The next decade will see a continuance of the rapid growth in consumer credit. There is no way of telling how rapid the increase will be, but *another* rise of around $30 billion would not be surprising. Today one may question this statement, pointing out that consumer credit started the last decade at a very low figure, mainly as a result of the shortage of durable consumer goods during the war. In January, 1946, total consumer credit outstanding was only $5.6 billion—less than the increase in the one year 1955. Since the growth of consumer credit in the last decade started from an abnormally low level, can a second equally large increase be expected?

I think that it should be expected. One reason for expecting a continuation of the rapid growth of consumer credit is that there are still a large number of persons who would make excellent credit risks but who today are not borrowing. The people who are most inclined to borrow are those in the income class of $5,000 to $7,500. These people have large enough incomes so that they make good credit risks, but they have small enough incomes so that they find it convenient

to borrow. Nevertheless, about one out of three of the families with incomes of $5,000 to $7,500 has no short-term consumer indebtedness and another third of the families in this income bracket have short-term debts of less than $500.

Obviously, there is an excellent opportunity for the banks, finance companies, retailers, and others to persuade the people with incomes of $5,000 to $7,500 to go into debt more deeply. The families with incomes of $3,000 to $5,000 make rather good credit risks, and yet about 36 per cent of these families had no short-term indebtedness and another 36 per cent owed less than $500. In these income brackets also there is opportunity for a large increase in short-term indebtedness. Even the families with incomes of $7,500 or more can probably be persuaded to go into debt more heavily rather than to pay cash. At the present time almost half of the families with incomes of $7,500 or more have no short-term debts.

A second reason for believing that a continued rapid rise of consumer credit is ahead is that social attitudes toward short-term personal indebtedness are undergoing a revolutionary change. It is true that people have long had charge accounts at stores and have bought a few things (furniture, for example) on the instalment plan. But the conventional point of view has been that, except for a few traditional kinds of debts, short-term personal borrowing is to be avoided. There is no doubt that ideas about the wisdom and propriety of personal indebtedness are changing. The automobile has done more than anything else to make personal indebtedness respectable and to cause it to be regarded with complacency.

Among the older persons ideas have changed much less than among younger—among families headed by persons of 45 and over about two out of three had no instalment debts in 1954, but among families headed by persons under 45 less than two out of five had no instalment debts. Finance companies, banks, stores, air lines, steamship lines, are doing their best to encourage people to go into debt. Steamship lines and air lines advertise, "Go now and pay later." Some department stores have established lines of credit for customers which permit the customer, by making a regular monthly payment, to remain in debt up to a given amount.

I am not taking a stand as to what amount of consumer credit is sound or what rate of increase is too great. Whether a rise of $30 billion in the next ten years is too great, provided it comes gradually at the rate of about $3 billion a year, will depend upon the size of demands for credit from residential building, business, and government. But there is no doubt that an increase of $30 billion in consumer credit in the next ten years will be powerful stimulant to the economy.

With the cold war forcing large expenditures on weapons and research, with technological change and discovery going on faster than ever and producing new goods and new processes and equipment for which there is a large demand, with the country embarking on a much-needed road program that dwarfs all previous public works programs, and with consumer credit almost doubling, the next ten years promise to be a period of exceptionally strong demand for goods. It is quite likely that we shall attempt to do too much by rapidly raising our consumption while maintaining a high rate of defense spending and a high rate of investment. Hence, it looks very much as if it would be easier in this period for prices to *rise* than to fall. The danger of a rise will be accentuated by the strong popular desire for cuts in taxes and by the exceptionally advantageous bargaining position that will be occupied by the trade unions. A high level of employment can be counted on for most of the next decade, but if some one has a feasible way of preventing a creeping rise in prices from accompanying the strong demand for goods that is in prospect, let him bring it forth!

In my judgment, we must reconcile ourselves to the prospect of a slow rise in most prices.

As condensed from an address at the Valve Manufacturers Association Convention.

We'll Pay $100 Billion This Year for the Costs of Government

And it will be the first time that the figure has been this high. Reaching a milestone often serves to emphasize a fact in a dramatic way—and, in this instance, maybe it will serve to point up the very high cost of government today. A most significant point: 11c of every dollar in the U. S. budget goes to pay interest alone on the federal debt.

THE cost to the people of government in the United States—federal, state and local combined—is heading for the $100 billion a year mark and seems certain to reach it in 1956 for the first time.

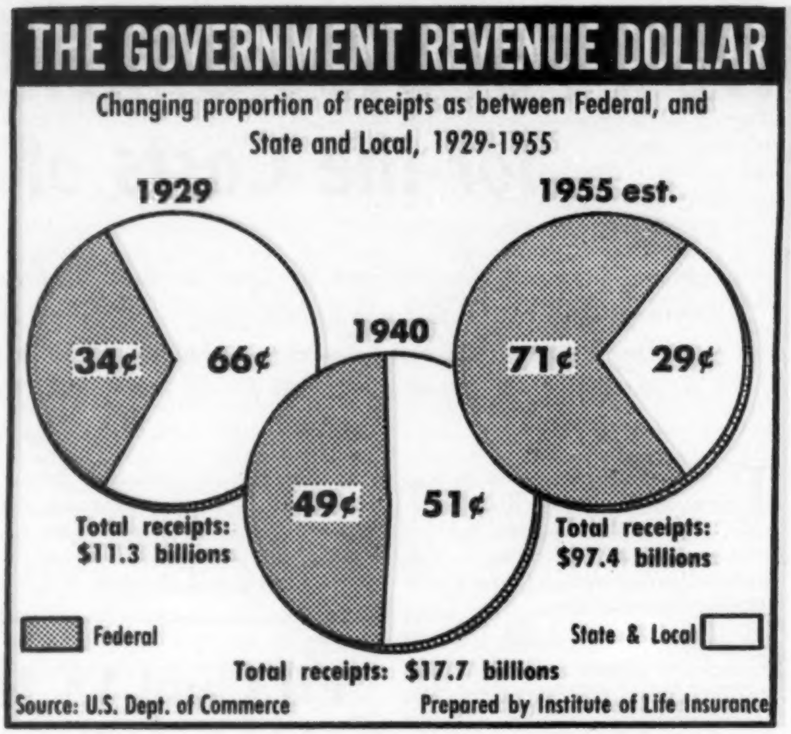
Aggregate receipts at all levels of government crossed the $97 billion level in 1955 to hit a new high. This figure was the equivalent of more than 30c of every dollar of the record national income for the year, and represented about $600 for every man, woman and child in the population. All the indications are that the trend is still upward, not only in the government's "take" out of the economy but in expenditures as well.

This development tempers the satisfaction that would otherwise be felt in the fact that the Administration has projected a balanced federal budget for the current year and the following one, according to the recent budget message to Congress. In view of the world situation and the heavy burden of defense, a balanced budget would be an achievement of fundamental importance to the welfare of the people and of the economy. However, it still leaves unsolved

the problem of the high cost of government in this country and the twin needs of tax and debt reduction.

A balanced budget has been the Administration's objective since it first took office three years ago, and its achievement has been accompanied by an economy drive that cut $10 billion from federal expenditures since the 1953 fiscal year. However, the projected trend of federal outlays is now upward, in the non-defense as well as defense areas, and the budget is being balanced at a level of expenditures several billion dollars higher than the original goal of $60 billions. The projected levels are $64 billion in the current fiscal year and just under $66 billion in the 1957 fiscal year.

The anticipated federal budget balance is by an exceedingly narrow margin, only $200 million in the current fiscal year and $400 million in the 1957 period. This leaves no room for a tax cut of any consequence, and has a margin for only a token debt reduction. The records show that these projected balances are the smallest since 1920, when the federal budget was only a fraction of its present size.



Revenue estimates, of course, are on the conservative side, and may well exceed anticipations with the continuation of the record incomes and prosperity the country is now enjoying. On the other hand, spending pressures are also great, and it will take a determined effort to hold expenditures to the levels set out in the budget message.

As it is, the current debt of government (federal, state and local together) is now in the neighborhood of $320 billion. The dominant element is the federal debt, which has been moving upward and now stands

at just under the temporary legal limit of $281 billions. It now takes 11c of every dollar of U. S. budget receipts to pay the interest alone on the federal debt, indicative of the extent that a long period of deficit financing and continuous borrowing adds to the cost of government.

A growing economy and expanding population like ours, of course, add to the need for government services to the people and in themselves bring a rising trend to the cost of government. This has been accentuated since the beginning of the Forties by war and inflation. As a result, government expenditures are now more than five times the $18½ billion level for 1940, a substantially greater rate of growth than in the economy itself in the period. Government tax revenues have shown a rate of expansion commensurate with expenditures for the period as a whole, reflecting record tax boosts as well as higher income levels.

The biggest expansion has been at the federal level in both revenues and expenditures. Right now, for example, federal revenues represent more than 70 per cent of all government revenues, and expenditures almost an equal proportion of all federal, state and local outlays combined. That is why the primary emphasis is placed on the federal establishment in efforts to keep the cost of government down.

» APARTMENT UPGRADING: Renters are demanding and getting better quality apartments, a nationwide NAREB survey shows.

The report noted these trends which indicate the upgrading of apartment units:

» Rents for adequate units of relatively convenient location are predominantly unchanged from levels of a year ago, and the major decline nationwide has been for converted units in older buildings and for "walk-ups" in cities having these structures.

» Refurbishing and the replacement of deficient equipment is being resumed as normal management practice more and more as the housing inventory continues to improve and competition sharpens.

» Tenants, in the main, seeking apartments in the larger metropolitan communities are finding more choice.

"Vacancy and rental tendencies in multi-family structures," the report stated, "are coming more and more to depend on quality. They reflect the active choice being asserted by families and individuals now able to select from an inventory with a modest margin of availability.

"Residential rents have stabilized in most communities. This is again the major consistency of the reports (of the survey) as it was in late 1954, though individual cities have not necessarily experienced continuance of earlier trends.

"Construction costs have pushed rents upward in cities where new apartments are appearing. Sporadic growth of other areas, prompted by industrial expansion or government installations, has created sudden demand for all types of units, and rents have firmed or moved upward.

"In a few areas, declining population or competition from low-down-payment sales have depressed rentals in general."

Vacancies, the report showed, varied a good deal by size of city.

"Tenants, in the main," the report said, "seeking apartments in the larger metropolitan communities are finding more choice. While half (48.4 per cent) of all reports approximate vacancies at '1 per cent or less,' the returns for cities of a half-million and over list this level in only 32 per cent of the cases."

The survey showed that 28 per cent of the cities of 100,000 to 500,000 found 1 per cent or less vacancies; 21 per cent found 2 per cent or less; and 33 per cent of these cities experienced 3 to 5 per cent vacancies.

The Mortgage Banker

HOUSING & MORTGAGES

▶ Conditions Today ▶ Outlook for the Future

▶ *By* EARL B. SCHWULST
President, The Bowery Savings Bank, New York

Mr. Schwulst's appraisal of the situation is that we are facing no severe drop-off in residential construction, that there will be adequate funds for all housing needs but that, in future urban building, the question of suitable land—or rather the lack of it—is going to be a serious one. Mr. Schwulst was a principal speaker at the California MBA Convention.

FROM many quarters we are warned to expect a slump in housing. The more pessimistic are adding that if it comes, and especially if it is accompanied by a sharp decline in automobile production, the very fabric of our economy will be endangered.

Earl B. Schwulst

May be. This depends on whether a slump is in fact imminent and, if so, how big it will be. Doubtless, a serious decline in these two major industries would adversely affect our economy.

How likely is a serious drop? What factors indicate it? What are the contrary considerations? What really is the problem?

I refuse to accept the counsels of extreme pessimism.

If it is true that we have six million or more dwelling units that are not fit for human habitation.

If it is true that we must build at least one million or 1.1 million or 1.2 million new units annually over the next six years and 1.5 million units thereafter for the next 13 years to meet the real needs of the nation.

If it is true that in the next four years we need 2½ million units for minority groups alone.

If we can expect, as has been true in recent years, that five million people per year will move from one state to another and another five million will move within state lines.

If less than 25 per cent of the 20 million eligible veterans have taken advantage of their GI housing entitlement.

If the prediction of the VA that 650,000 veterans will exercise their GI rights for home purchases in 1955 materializes.

If industry carries out its current plans for expansion and decentralization.

If all these things are true, as the majority of experts, both in government and private enterprise, suggest, I cannot foresee the likelihood of an imminent, serious drop-off in residential construction.

On the other hand, the horizon is not entirely cloudless. The government has evidenced concern about the growing size of the combined consumer installment and housing debt. Although there are available statistics to prove this debt is too large, too small, or just about right, the fact remains that annual repayments on this growing debt have risen from 13 per cent of disposable personal income in 1950 to 18 per cent in 1955. There obviously must be a limit to the extent we can commit future income. In a respectable number of areas we are encountering for the first time clear evidence of over-building. Home sales are moving perceptibly slower. Home buyers are becoming increasingly selective. The cost of construction and the cost of suitable land continue to press upward and are severely taxing the ability of home builders to produce housing within the purchasing power of their markets.

What is the answer? At the beginning of this year, the building industry, noting the progressive decline in starts over the past five months, demanded that credit and terms be eased. We know what the response was. VA and FHA restored the 30-year loan. The Federal Home Loan Bank Board partially restored to the savings and loans the privilege of bor-

rowing to meet mortgage commitments. FNMA instituted a new plan that in effect provides for the warehousing of mortgages for nine months for a 1 per cent fee. On the other hand, no action was taken by the government to ease over-all credit policies. Nevertheless I doubt if mortgage money will be in short supply. Although savings did not accumulate last year at the rate experienced in recent years—and may not this year—I foresee no shortage of mortgage funds for real housing needs. Indeed, it seems to me that neither credit nor terms have created the problem we now face. Credit policy has returned since the war to a position of respect as an instrument to be reckoned with in leveling the cyclical fluctuations of our economy, but even those who wield this power recognize that although it can nudge the economy one way or the other it is not a panacea for severe and deep-rooted fluctuations. As for terms, we are all beginning to realize that there is a limit to the demand that we can—and that we should—create by this device. We are learning what it should not have been necessary to teach us—that if you have more new homes in a community than prospective buyers neither credit nor terms will prevent an over-hang of unsold houses.

The picture, as I see it, is this: On a country-wide basis there is still a large unsatisfied demand for new housing. However, this housing must be built in a proper price range, in a proper amount and in areas where demand is still evident. Under such circumstances FHA and the VA mortgages are still attractive investments for institutional lenders. I don't think the well of loanable funds is in danger of drying up in the foreseeable future. I think the government will continue to exercise its powers over credit and terms to do whatever is possible to keep building at the golden mean of 1 to 1.2 million units per year, provided this does not put the private debt picture entirely out of focus or create dangerous inflationary pressures. I do think, however, that mortgage originators and the builders they service will have to be increasingly imaginative and selective.

Home building declined materially in each of the last five months of 1955, reaching an annual rate in December of 1,187,000 units. Informed estimates of residential starts in 1956 range from 1.1 million to 1.3 million units. My own guess would be that the lower of the two figures may be closer to the truth and I do not think that this will be the result of a lack of mortgage money. The indications are that this year the supply side of the mortgage investment equation will create the restraining force. Here are a few of my reasons for this belief.

First, across the country a real shortage of suitable land in suitable areas is developing and such land as is available is going out of sight costwise. Testifying before a Senate committee in November, Bill Levitt demonstrated this fact dramatically. In 1949 he bought land on Long Island for $2,500 an acre. He sold it in 1951 for $4,500 an acre. This same land was resold in 1953 for $8,000 an acre and in 1954-55 for $15,000. A similar instance was described recently in the Wall Street Journal. Shortly after World War II, a veteran purchased 10 acres of land almost 20 miles south of Miami for $50 an acre. He sold this land in 1955 for $1,500 an acre, and it has recently been resold for $3,000 an acre. To a greater or lesser extent these experiences have been duplicated in many suburban areas from coast to coast. These cost increases are hardly surprising. Three-quarters of our residential building is in metropolitan areas where an ever-increasing demand is pressing against a shrinking land supply.

Second, the cost of labor and building materials is still rising swiftly. The average construction cost per unit rose to the all-time high of $11,300 for the first 11 months of 1955, an increase of more than 6½ per cent over the same period in 1954. To some extent this was due to the emphasis on larger units but to a substantial degree it reflects the still rising index of construction cost. The cost of land preparation is also rising because of the increasingly stringent requirements of municipalities with respect to community facilities such as sewers, water, etc.

Third, the prices of existing dwellings have followed the upward price trend, causing the market for resale to become increasingly tight on the demand side. The record of FHA loan applications on existing homes demonstrates this fact clearly. In 1955 these applications showed constant monthly increases over 1954 until September. At that time the impact of the action by FHA shortening the maximum term from 30 to 25 years struck the existing home market. In September and the remaining months of 1955 these applications declined each month relative to 1954. VA applications showed a comparable decline relative to 1954 beginning in June 1955 one month before the shortening of maximum term. I emphasize this trend because of its effect on the new construction market. We know that many of the sales of existing homes are primarily for the purpose of enabling present owners to purchase new homes better suited to their needs. Any slow-down in sales of existing houses is reflected in the new construction market. It is not surprising, therefore, that during the closing months of 1955 there was a corresponding decline in the number of FHA and VA applications on new units. Because of the time lag between application and commitments on the one hand and actual construction on the other hand the declines in the last half of 1955 indicate that construction in 1956 will be somewhat below 1955. This may be offset to some extent by the heavy number of applications in the first half of 1955 which, because of the slow sales mar-

THE DEMAND IS STILL HERE: On a country-wide basis there is still a large, unsatisfied demand for new housing. However, this housing must be built in a proper price range, in the amount and in the areas where demand is still evident. Under such circumstances FHA and VA mortgages are still attractive investments for institutional investors. I don't think the well of loanable funds is in danger of drying up in the foreseeable future.

ket in the last six months of 1955, never materialized into actual construction. Many of these applications and their corresponding commitments may create actual housing in 1956.

I am assuming then that there will be a modest decline in the number of units of residential housing completed in 1956. Insofar as financing requirements are concerned, this decline in units may be offset in whole, or in part, by the construction of larger units at increased prices. Thus, the financing needs may well be about the same as in 1955. I believe that mortgage funds will be adequate to the task. As for mutual savings banks, their deposit gains were somewhat less in 1955 than in 1954 ($1.8 billion vs. $2 billion). Because of the heavy demand on disposable income imposed by record installment and housing debt the competition for the disposable income of individuals is still very keen. Judging from our recent experience, however, people still seem to be determined to save. I would not be surprised if the mutual savings banks fare at least as well this year as last in attracting deposits. The ratio of mortgages to assets of mutual savings banks has increased to 56 per cent. This means there is still ample room in the portfolios of most banks for mortgages. The assets of life insurance companies increased 2.6 per cent in the last quarter of 1955 compared to a gain of 2.1 per cent in the corresponding period of 1954.

PROBLEM OF SMALL BUILDERS: One problem that has been given little consideration is that of channeling these available (mortgage) funds in such a manner that the small builder will have access to them on an equal basis with the large-scale development builder . . . a more equitable distribution of commitment funds, particularly to the smaller builders, would greatly minimize the recurring so-called mortgage money shortage periods.

As mortgage portfolios have risen to new heights during the past decade, the increasingly great amount of reinvestable funds for mortgages, through amortization and pay-offs, is providing a reservoir of mortgage money for future production. That reservoir is still growing. From this source alone it is estimated that some $9 billion annually should be available to the home building market. In the distribution of all these available funds the mortgage bankers have an important responsibility through their contacts with the builders, who start and carry through the chain of events leading to the ultimate commitments of the permanent lenders. One problem that has been given little consideration is that of channeling these available funds in such a manner that the small builder will have access to them on an equal basis with the large-scale development builder.

The small builder who produces 20 to 50 houses a year is not in a position—financially or on a production basis—to plan much in advance of current production for land, material or labor. Therefore, when mortgage money tightens up he is the one who is affected immediately. On the other hand, the large-scale builder does all of his planning a year or more in advance of production and secures commitments on a site approval basis in most instances well in advance of actual production. In effect, during the last period of plentiful mortgage funds some of the large builders were really stockpiling commitments for production of housing beginning six to nine months beyond the date the commitments were secured. I realize that the placement of commitments on large tracts by mortgage bankers from funds made available to them by permanent investors requires much less work than spreading such funds among a group of small builders. However, I would like to express the thought that a more equitable distribution of commitment funds, particularly to the smaller builders, would greatly minimize the recurring so-called mortgage money shortage periods. Mortgage bankers should survey their building territories with the idea of providing adequate financing for the largest number of builders rather than one or two large builders. It seems to me that this can be accomplished and still provide the large builders with commitments covering their real needs.

If available commitment funds are thus allocated on the basis of immediate or short-range production schedules, rather than long-range production schedules, it is obvious that the same amount of funds will take care of more builders. Such a procedure would also have the effect of spreading out on a more even basis the flow of mortgage funds and would not overburden investors' commitment positions on an advance basis to the extent that the investor has to curtail commitments from time to time. As an example, let us say that Builder A has a 500-house project requiring $7½ million in mortgage commitments. Mortgage Banker X has available commitment funds for the $7½ million but Builder A will construct and sell only an estimated 300 houses within, say, nine months to a year. Why, under such circumstances, should not only $4½ million in commitments be made to Builder A and the balance of $3 million be made available to Builders B, C, D, E, etc., in amounts which comfortably would take care of their short-range loan requirements.

It is paradoxical that recent reviews of the building situation indicated that only in a few instances was there immediate concern about mortgage commitments and yet there was emanating simultaneously from government great concern about a mortgage money shortage. May I submit that government was getting its complaints not from the large and medium-size builders interviewed in these recent reviews, but from the small builders in large numbers who may have been neglected by the mortgage bankers. At least this is a matter which should be given some thought and study by progressive mortgage bankers whose objective is to provide the widest distribution of mortgage funds in their respective areas.

The demand side of the mortgage market will continue strong in the near future. Any prediction made today, however, may be knocked galley west tomorrow by action of the

(Continued on page 60, column 1)

THE conventional mortgage loan during recent years has receded as an instrument of mortgage lending. It no longer occupies the dominant and once exclusive role that it formerly enjoyed. The trend has been so marked and so consistent, that I believe the time has come to stop and take a long look at the problem. It is necessary to reassess the values of the conventional loan and come to the conclusion that the trend should be reversed. If we do not change direction but continue to allow a greater and greater percentage of loans to be gage lenders to reevaluate their proper position or, to be more positive, to reevaluate the conventional loan as to its proper place in our mortgage portfolio.

I believe that we have allowed the conventional loan to get out of proper perspective.

There are areas of residential mortgage lending that do not properly fall within the scope of conventional mortgage lending. Statutes of the various states and national banking law have drawn certain restrictions as to the outer limits of conventional lending.

THE CONVENTIONAL LOAN

By RICHARD B. HASKELL

At just about any MBA meeting one happens to attend these days he will be confronted with a session on the conventional loan—impressive evidence of the change that has taken place in recent years regarding mortgage thinking concerning the very cornerstone of the industry. Here a savings banker takes a broad look at the conventional loan. His admonitions to the bankers are about the same that you've been hearing—that we've probably given the other side of the business too much of our attention to the neglect of the conventional side —and with resultant loss to ourselves in many ways. Mr. Haskell is vice president of the Mechanics Savings Bank of Hartford and addressed ABA's Savings and Mortgage Conference.

written as insured and guaranteed loans, it seems inevitable that we are continuing farther and farther into the mesh of government control, steadily continuing along the road to socialized housing, possibly socialized lending.

It is a merry joy ride while we are taking it, but it is a downhill ride.

I do not write insured and guaranteed loans out of existence. It would be foolish to entertain such a proposition. So long as they are with us, there is some place in most every portfolio for them. They have served and they do serve a purpose. But it becomes our job as bankers and mort-

There are restrictions as to loan-value ratios, maturities, size of loans, etc. Some of these restrictions are already quite liberal; others are not. It behooves us to work towards changes in those laws that do not allow a proper operation within their limits. Recent changes in the national banking law are a good example. Possibly these changes did not go far enough. At least they were a step in the right direction.

There are worthy loans that cannot be written within these restrictions; and with authority lacking to make such loans as conventionals, they must be written as insured or guaranteed loans. Mortgage insurance itself is not an evil operation. It is and should be a perfectly legitimate operation, and should be applied in those cases that bear an inordinate risk or that do not meet all the qualifications of a proper conventional loan. But I believe that bankers, and other lending institutions to a somewhat lesser degree, have been applying insurance and guaranty to loans which more properly should be conventionals.

At some point, investment-wise, all mortgage loans are theoretically equal. At such a point, none has any advantage over the other. The old cliche best defines the precise point where such equality exists: namely, those loans that present maximum safety with the best return. Just as there is practically no such thing as normal economic conditions (we are either above or below normal, even if it is only in the slightest degree), there probably is no such thing as the perfect mortgage loan. There are too many variables. The original loan may have been too high or it could have been higher, the rate of amortization is too long or too short, the credit standing of the borrower may be weak or strong, and an improper relationship between credit and collateral may have been drawn. All or part of these miscalculations may have been made before we even get to the question of rate of return. Here we are up against an almost impossible measure of precise value. It is true that the growing free market for mortgages with subsequent available quotation is lessening this as a factor; but, in the main, we operate within a rather rigid schedule of interest rates. I do not refer to the rise and fall of the level of interest rates, but I refer to the inability to measure precisely a proper return in multiples of probably not less than ¼ per cent. The growing free markets for mortgage loans introduce an additional variable. One presumably pays a price for varying degrees of liquidity. In the mortgage field, this is probably impossible of measurement.

In spite of all these factors, it is necessary that, when making the decision as to whether a given loan shall be written conventional or otherwise, one must come to some conclusion as to where such point of equality exists. From such a point to the right, shall we say, the loan may and should be

written as conventional; to the left, in a manner of speaking, it should be written FHA or VA.

I am becoming increasingly convinced that we bankers, by our own definition of quality, have been placing such a theoretical point of equality too far to the *right*. It should be farther to the left than it has been; or, in other words, we can be somewhat more liberal than we have been and yet be safe and correct. Admittedly, the temptation to seem to play it safe and to crawl under the umbrella of government guaranty and insurance is great. But, in the final analysis, we do it for two reasons principally: safety or marketability. The latter reason, marketability, is a topic of itself and must be treated separately. The matter of safety is all-important but perhaps should be given closer scrutiny. What are the advantages of giving close scrutiny with the idea of writing as much conventional as possible? The advantages accrue to both the borrower and the lender, and to the economy of the country as a whole. The true banker must be interested in all three.

What advantages accrue to the banker or lender? The conventional loan often produces a higher rate of return. This is not universally true; but, generally speaking, it is a valid statement. Certainly, they do not generally produce a lesser return. When compared with the FHA loan, a normal yardstick of the difference would be the cost of the insurance. When compared with the VA loan, it will be at least the same as measured either by the stated interest rate or by the discount that happens to prevail. Is there any comparison between a proper conventional loan at par and those G.I. loans that sell at a discount?

Also, when considering rate of return, one must also consider the variations that the economic ebbs and flows cause in such return. One of the great indictments of the governmental mortgage loan programs is the strait jacket in which the interest rate operates. It sometimes defies basic economic laws. It sometimes seems that motivation is more political than economic. Whatever the motivations, we are all aware of the situations that have been created by these strait jackets. At times, the supply of funds for such loans has contracted seriously; upon other occasions, discounts, sometimes deep, have appeared to be a solution. Neither of these conditions necessarily produces more housing or makes housing properly available for those who have the desire or the need. An interest rate structure with greater freedom of fluctuation can be the only answer to such conditions. A bank with a policy committed to more conventional lending, and less guaranteed and insured lending, is a bank better able to adjust itself to the economic tides. It is its own master as to the interest rate. Being its own master does not necessarily mean that it will or should earn more money. It does mean, however, that it should earn a proper return—a return more in line with existing conditions. Such a policy, a policy which more closely follows the simple law of supply and demand, inevitably will provide funds more consistently—possibly at times when most needed. If mortgage lending institutions would direct a greater portion of their lending into the channels of the conventional loan, they would be freeing a larger portion of the mortgage market from artificial restrictions; supply of funds would more nearly equal demand for funds; the lenders would benefit; the borrowers would benefit; and the general economic health would be much improved.

The cost of acquisition of the conventional loan must be considerably less than the cost of acquiring FHA's or G.I.'s. The elimination of all the excess time and paper work needed to process insured and guaranteed loans, to say nothing of the constant handling that attends "loans in process," could not help but reduce the costs of any mortgage lending operation. The inordinate and often unreasonable delays in handling insured and guaranteed loans often leave them in an "in process" stage for long periods of time, leading to excess handling. I have seen mortgage department cost figures; I have seen them broken down between costs of acquisition and servicing; but I have never seen them broken down as to the costs of handling FHA's, G.I.'s, or conventionals. Common sense, however, gives an easy answer to this one.

After having made a study of the loan-value ratio, after an underwriting decision has been made on the type and location of the property (and an appraisal does not necessarily com-

LOWER COST OF BORROWING is not only concerned with the cost of money. The mortgage lender has a duty and responsibility, when considering any type of loan, to analyze a borrower's capacity for payment and to advise such borrower properly. It is a simple truth that the shorter the maturity, the lower the overall cost of borrowing. A simple arithmetic computation easily proves this fact, but a surprising number of mortgage borrowers are unaware of this elementary fact. The lure of the lower monthly payment occasioned by the longer maturity provides a great temptation to the borrower; and his lack of knowledge or ability to analyze such facts often will cause him to take on a proposition which does not properly fit his situation and which, overall, is more expensive for him. The recent changes in the maturity requirements of GI's and FHA's have emphasized this fact. Immediately after the change to 30-year maturities, we saw an increased demand for longer maturity money. Naturally, some of this demand comes from sources which could not measure up to the shorter term requirements; but much of it could meet the requirements of a shorter term. It is the duty, and it is to the self-interest of every loaning institution, to advise those applicants who qualify, that a shorter run is to their benefit. Those institutions which are conventional minded and necessarily do a closer underwriting job, inevitably will produce better results in this respect.

pletely reflect this point), after a study of credit which includes, among other things, the ability of a borrower to carry an obligation, his age, the type and source of his income, and his history regarding the honoring of his obligations, a conclusion must be reached on the outer limit that exists for the making of a proper conventional loan.

After such a conclusion has been reached, there would seem to be no arguing the fact that the incidence of foreclosure within this conventional loan range will be less than in loans made outside of and beyond this range. By simple definition, the stronger loans become conventionals. This is as it should be. This was the original purpose of the insurance and the guaranty, and is the basic reason for its development. Like so many other types of government loan or guaranty, their stated or implied purpose is that they provide credit where normal banking channels do not or cannot furnish such credit. It is our duty and responsibility as bankers, however, to expand our sights as far as we possibly can to embrace as large a loaning area as possible. If we do not, we are inviting government agencies to enter a sphere of operations where they do not belong and which is properly ours. The farther government gets into our area, the better will be its experience and the more reason and justification for its being there. The farther we expand our loaning area, the less the justification for government's being in our business. This theory taken to its ultimate, and not necessarily ridiculous, conclusion would prove that the banks and other loaning institutions are making loans adequate for the demand or need and that there is no justification for government being in the field.

We live in and believe in the capitalistic system which, by one definition, is a risk system. The banking industry should stand up to its responsibility and, as a prime exponent of the risk system, be willing to accept reasonable risk. If it does not, it is inviting further intrusion into its field, which, if carried to the conclusion at the other end of the scale, (and again not ridiculous) will reach the point where we will have to fight for justification of our existence. We can win this fight only by being positive—certainly not by being negative.

The incidence of foreclosure should be less in the conventional loaning area than outside it. Foreclosure is the spectre that attends the making of most every mortgage loan, and there is no doubt that many a banker dreads the day that he may find himself with a large holding of real estate by foreclosure on his hands. Such a situation produces a condition where the bank has a frozen asset at a depressed value, and usually with little or no income. With this in mind, it is very easy to conclude that the best method of avoiding real estate by foreclosure is to look to a guaranty or insurance instead of to the real estate, thus turn the mortgage into cash or debentures, either of which can be made to produce earnings. But there is another side to that coin.

Foreclosure Factor

Mortgage lending, by its very nature, is a long term investment venture entered into only by those who have long term investment money at their command. Their objective should be that, within proper limitations, they should keep as much money as they can working as continuously as they can over as long a term as is possible or proper. The loss of mortgage loans either by foreclosure or by conversion into cash or government bonds—all of which, if they occur in volume, will be, if history repeats itself (and if the money managers do their job properly it will) at a time when interest rates are low, mitigating against reinvestment at a reasonable rate—the loss of mortgage loans under these conditions cannot help but result in a loss of income, thus defeating the reason for making the loan in the first place.

Now, if it is agreed that the incidence of foreclosure should be less within the conventional range than it will be outside of it, it must also be agreed that conventional loans are the best insurance for holding future earning power. This is a point that those banks which are heavily invested in insured and guaranteed loans might well ponder. There is no question raised regarding the validity of the insurance or guaranty. The contracts are good and the principal is secure. But cash or low rate debentures could well be the very thing that such a bank would not want or could not afford to have. Not only do conventional loans produce an equal or a better return today; they will produce a better or more continuous rate in the future. Of course, if one argues that we will never have another real estate depression, or that good times are here to stay, then the case of conventional loans is won without any argument whatever. If we will never again have foreclosures, why do we even look to insurance and guaranty?

There is another reason why conventional loans benefit the banker. The banking industry is essentially a service industry. The typically local bank gathers its funds from its local community; and after fulfilling the prime function of caring for the funds with adequate safety and return, not only has the duty, but should perform the service of making funds available for legitimate uses within its community. Are banks performing a proper service to their communities, or individuals within the community, when they operate on the thesis that good credit applications are not worthy of normal bank credit but that, if a loan is to be made, it must be insured by a paternalistic government? Does such an operation build a sense of pride and cooperation on the part of the community towards the bank? I don't think so.

Service Factor

But the subject goes even deeper than that. A bank not only performs a service when it grants a loan, but it is in a position to grant an even greater service when, as, and if borrowers need temporary or even more permanent help over the rough spots. By its very nature, the handling of problem cases under the insured and guaranteed programs must follow a rather rigid procedure. To be sure, there is some latitude of operation; but, in the main, regulations require more or less standard procedures. The programs could not be properly handled otherwise, for it is inconceivable that the government agencies could have loose ends all over the place. If they operated in such a manner, they would soon bog down. It must be so because, if we are properly handling our FHA and GI loans, we are constantly guarding against the myriad ways in which the insurance or guaranties may be voided. Not so, however, with the individual bank or banker dealing with a conventional loan problem.

Mortgage lending is but one segment of the banking industry, and the mortgage lending of the banks is but

one segment of the mortgage lending industry. Statistics show that the banks are not doing a job equivalent to others in this field. From December 31, 1951, through December 31, 1954, growth of holdings of residential non-farm mortgage loans in savings banks, commercial banks, savings and loans, and life insurance companies totaled $24.2 billion. Savings banks and commercial banks combined contributed $7.5 billion or 31 per cent of this total, savings and loans $10.6 billion or 44 per cent, life insurance companies $6.1 billion or 25 per cent of the total. Of the $7.5 billion growth of the banks, $2.6 billion or 35 per cent were conventionals and $4.9 billion or 65 per cent were insured and guaranteed. Similar figures for the $10.6 billion of growth of the savings and loans show $8.7 billion or 82 per cent as conventionals and $1.9 billion or 18 per cent insured or guaranteed. Of the $6.1 billion growth of the life insurance companies, $3.7 billion or 60 per cent were conventionals with $2.4 billion or 40 per cent insured and guaranteed.

Similar figures covering a longer span are no more encouraging. From December, 1945, through September 30, 1955, 35 per cent of the growth of the banks was in conventionals with 65 per cent being in insured or guaranteed. During this same period, the savings and loans showed an 80 per cent growth in conventionals against 20 per cent in insured and guaranteed; and the life insurance companies, 58 per cent conventionals and 42 per cent insured and guaranteed.

Trend to Government Loans

Bankers have not changed stride either, for most recent figures covering nine months ending September 30, 1955 show that, of the banks' growth, 34 per cent was conventional with 66 per cent insured and guaranteed; 76 per cent conventional and 24 per cent insured and guaranteed for the savings and loans; and 50 per cent conventional and 50 per cent insured and guaranteed for the life insurance companies.

All three categories of lenders apparently have recently been turning more to insured and guaranteed loans. We should all be concerned about this trend, but it is quite evident that bankers have a long way to go before we can begin to compare with the other important segments of the field. It is time that the banking industry took a serious look at itself and asked itself if it is satisfied with the job it is doing. It is clear to me that the banking industry should do a better banking job if it is to avoid a possible future indictment of its having insured and guaranteed itself out of existence.

Conventional loan advantages to the borrower are not few; and to him as an individual, they may loom as most important. Except in areas of capital shortages, where it has previously been acknowledged that FHA and GI loans, as a practical matter, must be the vehicle for the export of such loans, the cost of borrowing is not generally greater. Many times it can be less. This fact is not in conflict with the proposition that the lender may possibly find conventionals more profitable. The cost of the FHA insurance naturally may be the answer to the difference so far as FHA loans are concerned; and the discount or fees, in many cases, produce the difference when considering GI loans. Under certain money conditions, the availability of conventional funds at even higher rates may compensate for lack of available insured and guaranteed funds subject to rigid interest controls.

Lower cost of borrowing is not only concerned with the cost of money. The mortgage lender has a duty and responsibility, when considering any type of loan, to analyze a borrower's capacity for payment and to advise such borrower properly. It is a simple truth that the shorter the maturity, the lower the overall cost of borrowing. A simple arithmetic computation easily proves this fact, but a surprising number of mortgage borrowers are unaware of this elementary fact. The lure of the lower monthly payment occasioned by the longer maturity provides a great temptation to the borrower; and his lack of knowledge or ability to analyze such facts often will cause him to take on a proposition which does not properly fit his situation and which, overall, is more expensive for him. The recent changes in the maturity requirements of GI's and FHA's have emphasized this fact. Immediately after the change to 30-year maturities, we saw an increased demand for longer maturity money. Naturally, some of this demand comes from sources which could not measure up to the shorter term requirements; but much of it could meet the requirements of a shorter term. It is the duty, and it is to the self-interest of every loaning institution, to advise those applicants who qualify, that a shorter run is to their benefit. Those institutions which are conventional minded and necessarily do a closer underwriting job, inevitably will produce better results in this respect.

Speed Is Important

A properly run mortgage department can process a conventional loan with much more dispatch than insured or guaranteed loans, and often with less cost to the borrower. Other phases of the servicing of the mortgage may acrue greatly to the benefit of the borrower. I have already referred to the advantages to the lending institution of having greater latitude in handling problem cases. Such situations can produce untold benefits to the borrower. In the extreme, it could mean the retention of a home.

Finally—and this may sound trite—but the knowledge that a bank is willing to do business directly with a borrower without having to look to government paternalism can have a tremendously positive effect upon a borrower. Some don't understand or care, of course; but many others have a pride and a desire to go it on their own. Their ego is built up, and they develop a feeling of stature when they know that, as individuals, they are considered good risks. I have seen this happen many times, though more in the negative than the positive. Many times I have detected an obvious disappointment when a borrower has been told that, for some reason or other, his proposition did not qualify as a conventional loan, but could be handled otherwise. In spite of the increasing intrusion of the government into business and into the lives of individuals, there is still a desire on the part of people to be free of government in such respects. We should encourage, so far as we can, this feeling of individual worth and stature.

We are all well aware of how far, in a social and welfare sense, the FHA program, in many respects, has wandered from its original purpose and concept. I merely point out that

(Continued on page 32, column 3)

The Prefabs Build 1 of

ONE out of every 12 new houses built in the United States in 1955 was a prefab; and in some areas of the Midwest, the ratio was even higher.

Recent figures issued by the Prefabricated Home Manufacturers' Institute show that approximately 93,000 prefab houses were manufactured and shipped last year. This represents an increase of 21 per cent over 1954's record high of 77,000. Dollar-wise, too, the figures are impressive; nearly $1¼ billion was paid out by the buying public for prefabs.

And, as in home building generally, the biggest prefab builders accounted for the greatest part of the market. Over 30 per cent of all prefabs manufactured in 1955 were the work of National, U. S. Steel and American—the Big Three of prefabrication. The nation's top five companies, together, turned out over a third of all prefab units built. And between them, the top 20 companies accounted for over 75 per cent of total volume. In approximate order of size, those companies claiming 1955 production of 1,500 or more houses include: National, U. S. Steel, American, Swift, Thyer, Inland, LFI, Harnischfeger, Pease, Presidential, Page & Hill, Place and Huber.

Yes, 1955 was a good year for prefabbers, generally; and the industry as a whole is optimistic. They see little reason why their prevailing boom, though modest enough, should not continue on through 1956. A record production of 120,000 factory-made homes is anticipated. This prediction is based, naturally enough, on the assumption that financing of homes in the lower price brackets under the FHA, and VA programs does not prove a serious obstacle. Reflecting the optimism of the industry in general are the results of a recent survey which indicate that the average producer of prefabs expects to up his 1956 shipments over 1955 by as much as 25 per cent.

The prefabbers base their optimism on the theory that even a minor slump in home building, generally, won't seriously affect their business. Past performance charts tend to support this theory; for even in 1951, when all home building slumped 22 per cent, the accompanying decline in prefab construction was only 9 per cent. Other factors, too, lend substance to the prefabbers' optimistic viewpoint: the expanding operations of the leading manufacturers; the substantial amount of new production facilities brought into the industry by both the established firms and the newcomers; the broadened market which the industry will serve, pricewise, in 1956; the vastly expanded sales and advertising programs undertaken by many of the prefabbers; the outstanding new home designs in the prefab field.

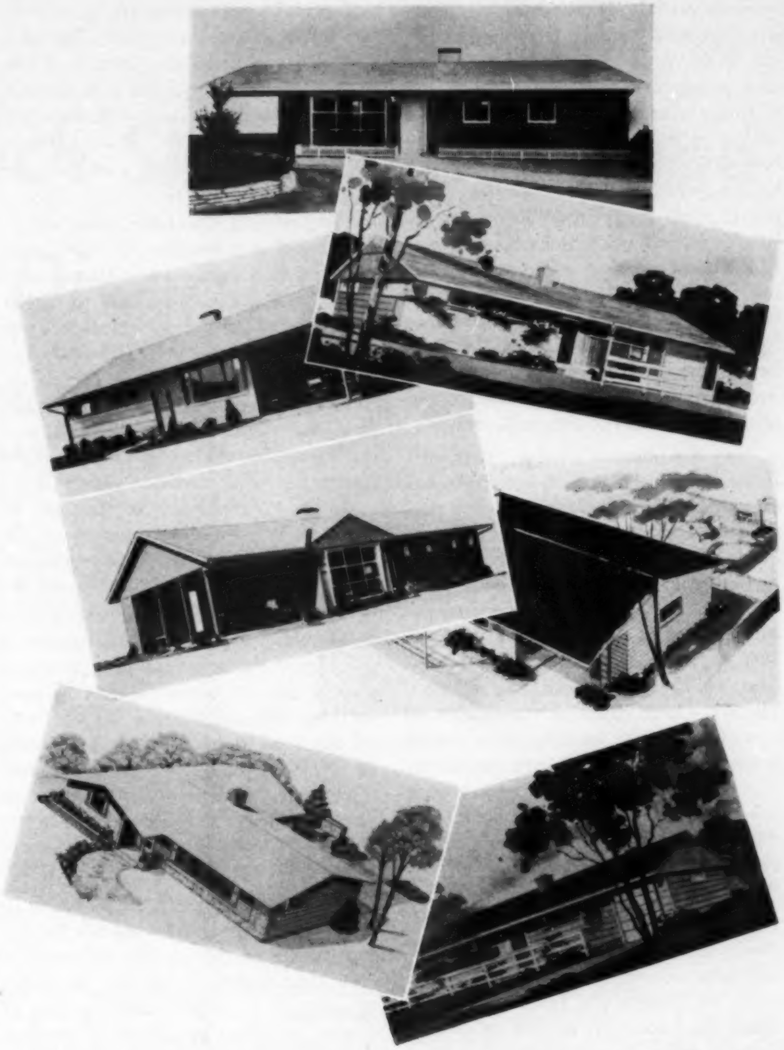
By turning out more substantial, higher quality homes at low prices, the prefab industry has proved its ability to overcome the prejudice against prefabrication. In some Midwestern cities, such as Fort Wayne, Indiana, prefabs now dominate the low-priced housing field. A few years ago all prefabricated homes were in the low-priced category; today some 13 per cent of production is in medium-priced homes; and inroads are being made into the higher price brackets.

Among the many accomplishments of the past year, to which the industry could point with pride, were: the capturing of the biggest part of the low cost market in cities like Indianapolis and St. Louis, and the appearance for the first time of higher priced prefab models in such prestige markets as Birmingham's Vestavia Hills, Cleveland's Forest Hills and New York's Westchester. Even such a long-time hold out area like Long Island, with its unique system of subcontracting aimed at developing fast-working, competitive specialists, has begun having its first prefabs. Also, additional builder-dealers were enrolled, upping the national total to 6,000. Product manufacturers, gradually, were coming to pay more attention to the prefabbers' special needs; likewise, at least two insurance companies had set up special million-dollar mortgage allocations for prefab houses. And, though some of the smaller prefabbers grew even smaller and at least a dozen companies quit the field altogether, another dozen or more were just starting and most of the bigger companies grew even bigger.

Over-all sales, during 1955, in states other than Ohio, Indiana and Illinois—the traditional cradle of prefabrication—proved that prefabbers were making a concerted attempt to break out of their tri-state, Midwest stronghold. Shipments continued growing heavier into such states as Pennsylvania, New York, Kentucky and Missouri. And of 14 new prefab plants established last year, at least six were outside the Midwest area. Prefabbers admit they intend to build plants all over the country.

But along with its continuing expansion, the prefab industry had new problems to face. Building codes and public acceptance proved the greatest obstacles to hurdle, but there were serious shortages in manpower and money, as well. And one big headache was the competition from conventional builders, who borrowed and used successfully such well-tried prefab methods as pre-cutting, panelized techniques, roof trusses and storage walls. Trucking costs, too, presented a major problem. Those prefabbers who increased the size of their houses to keep pace with the increased size of the conventional builders' models found that they automatically doubled their delivery costs; where before one truck

# of Every 12



Amazing as has been the records which the building industry has established in the past ten years, it still cannot equal, on a comparative basis, the record which the prefabricated homes section has set. The progress goes on. Every year larger production, more variety in houses offered, better quality and design, more industry obstacles surmounted—and everywhere a wider acceptance.

***By* ROBERT J. BERAN**

per house was sufficient for transport, two were now needed.

To avoid this one particular cost increase, several prefabbers investigated the piggy-backing of truck trailers on flatbed rail cars. National, early this year, starting shipping its first piggy-back loads out of Lafayette, Indiana.

The mortgage pinch, too, was painful—at least as painful to prefabbers as to other builders. And though the prefabbers' sponsorship of acceptance corporations indicated their new maturity as merchandisers, it indicated likewise their need for special financing to help sell their houses.

Perhaps the most perplexing problem of all was the question of how to design one house which would appeal to and meet the requirements of a great number of different buyers in scores of cities and areas in widely separated sections of the country. Overemphasis on the peculiarities of any one local market could effectively restrict the operational scope of the prefabber unwary enough to so specialize.

During the past year, major advances were made in design, size and appearance of prefabs; in fact, the prefab look has all but disappeared from today's modern prefabricated house. A few years ago the typical prefab package consisted of not much more than some rough panels and a sheet of instructions; today, it contains almost every structural element except the foundation. Plumbing is being added; and a utility core is being added, as is electrical wiring, prefabricated tile panels, complete flooring and ductless air conditioning.

The trend is to contemporary, with little, if any, limit to the range. Brick and stone are being used in increasing quantity; it symbolizes quality and it meets a market preference. Colors are used more extensively and with greater imagination. In every way, today's prefab model is bigger and handsomer than its forerunner of even a year ago.

One outstanding new construction feature which offers wider flexibility for both manufacturer and builder, is the "breakout" technique developed recently for National Homes by Washington, D.C. architect, Charles Goodman. This new technique permits the mass production of non-rectangular houses with T, L, U or H wings with an ease and efficiency heretofore impossible. It has been already incorporated into the basic design of many of National's standard models.

While it is true that 1955 still saw a good deal of builder resistance from within the home building industry itself, the over-all continuing trend toward better quality, better design and increased economies have caused more and more of the nation's leading homebuilders to switch their opera-

tions to prefabs. These builders point out that with prefabs they can schedule their work more efficiently and that a faster completion time means a faster turnover of money, and a saving in financing charges. Too, the bids of masons, electrical contractors, heating contractors, etc. are lower, because they know that their money won't be tied up as long as is sometimes the case in conventional building. The builders point out, too, that with today's costs they can't put into lower priced, conventionally built houses the same quality they once put into their high bracket dwellings. But with prefabs, it's a different story.

Nor are homes, today, the only building types to which assembly-line construction techniques are being successfully applied. Prefab schools are being produced in increasing numbers by several firms. These firms offer structures which can be erected quickly and at approximately half the cost of the conventional school. Last year, in Lafayette, Indiana, National Homes Corp. built a prefabricated school in just 21 working days and at a cost of only $18,500 per classroom. The conventional school, by contrast, takes 12 to 18 months to build and costs an average of $37,000 a classroom.

So enthusiastic is National about its non-home models, that head man, Jim Price, foresees a time when non housing structures may account for a large part of National's business. U. S. Steel, too, expects to be selling, shortly, factory-made hospitals, churches, stores and motels, as well as schools. And Ready-Made Building, with its market in the Kansas farm country, is preparing a varied range of structures including cottages, barns, garages and even dog-houses.

Closer attention is being given to product merchandising, epitomized by a brand name and by an individual and recognizable style. Many of the industry leaders feel that only through such brand-name merchandising can prefabrication grow. Directly related to this is the accelerated need for and interest in smoother financing. Prefabbers realize that to sell more houses they must assure the builders of a mortgage market.

Until this year, National Homes Corp., whose stock is traded over the counter, was the only one of the leading prefab manufacturers in which the public could participate. But this year, for the first time, several of the prefabbers have equities outstanding. In some cases, the funds thus obtained are being used to set up acceptance corporations to finance home purchases.

Progress in the prefabrication industry, though encouraging in 1955, nevertheless has been slower than many originally anticipated. This is chiefly because the building industry as a whole has become more efficient. For every improvement in the prefab industry, conventional home builders have also made an improvement; and in many instances, the large scale conventional builders have been adapting prefabbing techniques to their on-site building operations. In short, prefabbers and conventional builders are heading in the same direction.

Though comprising, today, only 8 per cent of the home-building business, the prefab industry may yet achieve its long-coveted goal of 10 per cent of the total market—if its prediction of 120,000 prefabs for 1956 is realized. This, in turn, depends on whether or not over-all home building falls below the government experts' predictions of 1.2 million houses.

Should the industry fail to reach its 10 per cent goal, it would not be due necessarily to the present tightness of mortgage money. Certainly, an easing of mortgage credit would benefit all home builders; but there exists, too, the paradoxical possibility that, in the long run, tight mortgage credit can become an actual boon to the prefab industry. Conventional builders, experiencing difficulty in securing sufficient funds to meet the demand for new homes, might in time accept dealerships for prefab firms which have established their own acceptance corporations. This, obviously, would strengthen immeasurably the prefabbers' position within the housing industry as a whole.

THE CONVENTIONAL LOAN

(Continued from page 29)

it appears that the program has been used as a vehicle for expanding concepts of mortgage lending and also for the further development of certain social beliefs.

But again, I want to make it clear that I do not condemn in any way the governmental insurance and guaranty programs. Possibly they have a proper place in our housing economy. Certainly, so long as they exist, they definitely have a place in the lending program of every institution. Those institutions that refuse to make FHA or GI loans, to my mind, are just as wrong as those which concentrate their efforts within these programs. I do believe, however, that the banking industry has tended to become too dependent upon them. It should chart its course in the direction of *less* dependence. Such a course will lead us in the direction of greater independence, in the direction of overall sounder credit policies with private industry maintaining the major control of such policies; and it will leave us with a sense of having properly fulfilled and preserved the very reason for our existence. The banking industry must not admit that it is unable or unwilling to cope with and satisfy the legitimate credit needs of our economy.

How Much Should Mortgage Bankers Diversify?

By ROBERT H. WILSON

President, Percy Wilson Mortgage & Finance Corp., Chicago

Some of the largest mortgage banking companies in the country do nothing but handle mortgages and render a service in insurance—no real estates sales, no management, none of the other departments. But a majority have diversified their activities and instead of one or two departments have many divisions. But have mortgage bankers diversified as much as they could, as much as good judgment would indicate they well might? Here a mortgage banker with some firm convictions on the subject sets forth his views.

MANUFACTURERS in recent years have been giving increasing thought to the problems of diversification. Companies that have about reached their growth limit with present products look for additional lines as a means to further expansion; and many managements feel it is safer not to have "all their eggs in one basket" in view of possible recessions in certain fields.

At the same time, some corporations have experienced the pitfalls of going into products for which they lack technical or merchandising know-how or established distribution channels. Diversification must be approached with caution.

Robert H. Wilson

In mortgage banking, how much can we, or should we, diversify? Some firms have grown big on one type of business almost exclusively—the tract type housing development. This is an extremely attractive area of operation. Mortgage processing on a large group of new homes of known specifications, valuations, sales prices and credit requirements is much simpler than for the same number of isolated dwellings of varying age and condition. When they are in the market for mortgages, institutional investors are glad to find large-scale employment for their funds in properties that conform to their requirements.

A high level of building has made a lot of this kind of financing available. With a good business outlook, full employment and increasing population, we hope it will continue to be available for years to come. Nevertheless, is it perhaps a mistake for a mortgage firm to build up overhead and office staff primarily based on this type of business?

A degree of diversification today would seem to be a very healthy thing for any mortgage firm. On the "storm cellar" side, there is the consideration that tract development on its present scale may not continue uninterruptedly. Builders may some day catch up with new housing demand, and new land developments could shrink quite suddenly, both in size and number. The firm geared mainly to this kind of financing might find it difficult to shift at once to other types of business and to establish other customer relationships.

On the brighter side, there are the opportunities for further expansion that firms preoccupied with tract developments may be missing. In particular, there are the older homes, multi-family units, commercial and industrial properties. Proper handling of these varied interests demands that a mortgage firm diversify its services. Diversification should be horizontal, not vertical, so that the by-products of the mortgage business can be utilized, yet not be dependent on each other.

While a great many firms profess to offer a complete mortgage financing service, some have never developed their full capacities, or have let them atrophy, in the scramble for new housing business. A reappraisal of other factors in the mortgage market and realignment of the office organization may now be in order.

"Operation Home Improvement" has brought the older house prominently into the picture this year.

Builders, banks, real estate brokers, heating, plumbing, air conditioning, appliance and home furnishings industries and many other segments of the economy have an important stake in this movement. Mortgage bankers likewise should be actively concerned in it, and not lose out by default to savings and loan associations or other competing lenders.

Remodeling Field

The interest of the mortgage banker in older homes has several aspects. First, there is a great potential in future first mortgage business among homes that have been or can be remodeled with the help of financing the mortgage firm can offer. Some improvements do not cost enough to warrant refinancing of the entire mortgage, when the mortgagor can get a short term small improvement loan. The contractor who is fixing up a house for re-sale, or the home owner who is improving his property is a candidate for such a loan, and may be a source of future business. The experienced improvement loan manager in the mortgage company can render a very helpful advisory service to home owner, realtor and builder. Satisfied customers tend to come back.

Of course, the home improvement loan in itself, carrying a good rate of interest, is a profitable adjunct to the mortgage firm's volume. There is need for both the FHA Title I loan and for a home improvement loan on a conventional plan, which is somewhat less hampered by restrictions.

Broadly speaking, home improvement on a general enough scale helps conserve community property values. The mortgage banker should do everything possible to promote the maintenance of long-term property values wherever he operates.

Making or arranging for interim construction loans and handling of construction payouts are other services that the well-equipped mortgage firm may offer. These should apply not only to residential properties, but to commercial, industrial and multi-family structures. The mortgage banker can be much more than a middleman between borrower and lender. He can give help to individuals or companies in selecting and acquiring property, and in locating buildings on the land. He may be able to help the builder develop property for his construction. All of these services go far beyond the obtaining of mortgage commitments and eventual delivery of loans. Yet they are part of the total financing process, and the mortgage firm can and should cooperate with the real estate and property man to make plans become realities.

Just as there is a trend to "one stop" shopping centers and the "one stop" contractor whose services include those of plumbers, electricians, carpenters and other trades, so there is a growing preference for the "one stop" financing organization. That is the real reason why mortgage firms handle insurance. There is no need to coerce mortgagors into taking insurance from the mortgage firm, and no excuse for a firm to run afoul of the law on this score.

The insurance department is there as a convenience, to make available a complete line of insurance for the customer's selection. Insurance is a natural step in service diversification. The mortgage firm, already making regular collections from the mortgagor, can offer a unique advantage—consolidated payments that include insurance, as well as principal and interest. Through such a collection method, the mortgage firm can help finance insurance premiums of all types.

Diversify Geographically

The spreading out of metropolitan areas gives rise to another kind of diversification—geographical. While a centrally-located headquarters near banks, title companies and other facilities remains a necessity, a branch office accessible to rapidly growing residential areas is most helpful.

In the Chicago area, for example, the suburban area extends out so far that it requires an hour or more to come down-town. Many people find it difficult to come into the city to close a mortgage. After much study, we located a branch office within fifteen to twenty minutes driving time of most major residential lending areas. Here we take applications, work appraisals, handle processing of individual applications and close mortgage transactions. We also make construction payouts and remodeling loans at the branch—a convenience to contractors in the area. The branch serves as headquarters for our field men, saving them travel time.

A sizeable percentage of individual mortgage business moves through the branch office, although headquarters operations continue at their same level.

Insurance for the Future

Whether it is in types of service or branch office location, diversification is for the purpose of having more to offer a greater number of people. It spells growth in the capability and capacity of the mortgage firm, and adaptability to whatever conditions may lie ahead.

The mortgage firm must constantly conduct research activities to discover better ways to serve the public and strengthen its own foundation. Research in the field of diversification is a never-ending process.

A Small Company Tries Simplification and Cuts Some Costs in the Process

By **H. M. KEARBY**

Vice President, Glenn Justice Mortgage Company, Inc., Dallas

A COMPANY whose entire business is the handling of money naturally must exercise great care in setting up traffic rules for its dollars.

In this sense the method of preparing such records as the loan payment journal for a mortgage company like ours assumes number-one importance. But the situation is complicated because our firm is a small one and thus somewhat limited in the extent to which it can economically mechanize operations.

Despite the small size of our accounting operations, however, we have recently installed a payment-accounting system using punched-card tabulating for maximum efficiency and at the same time permitting us to move into the new program smoothly and gradually. The principal means of achieving this were careful planning and scientific form design.

The basic advantages of this system, we felt, would be:

» *Simplicity:* the simpler the methods, the less chance there is for error. We design everything we do for simplicity of operation.

» *Time saving:* we have saved an estimated 60 per cent of one girl's time, which can well be employed in other functions, since our business is still in a stage of rapid expansion.

» *Ease of change-over:* We had to to sure that adopting the new method, a radical departure from old ways, would not disrupt our operations. Actually it turned out that spreading the change over several months was the most effective plan, and this we were able to do.

» *Keep pace with growth:* Any plan we adopted must not only give us reasonable room for expansion, but must be capable of revision to absorb very considerable increases in business —and yet must not expose us to the uneconomical over-extension of methods which might result from this approach.

The reason for this emphasis on expansion is the fact that our business has almost doubled since the company was founded just three years ago, and we anticipate similar growth for some time to come.

The program we have adopted for recording mortgage loan payments employs an 80-column IBM punched card as the master payment control on each account. As each monthly payment is made, it is posted to a new card and this information is translated into a journal record on the tabulating machine.

The journal form, incorporating the basic information we had used in our handwritten journal book sheets previously, is a marginally punched Kant-Slip form designed for us by Standard Register Company.

H. M. Kearby

Our general procedure in handling loan payments has been maintained in the new system, except that it has been made considerably more efficient by the form design and mechanization.

When a payment check was received, our clerk used to match it with our cashier's payment card—a permanent file card which served to verify the amount and other details of the payment.

Then the payment was handwritten in the journal book and returned to our bookkeeping department for posting to a permanent ledger record of the account.

In order to justify use of tabulating equipment in our offices, we determined that it would require 5500 to 6000 accounts. When our business was founded as a servicing agent for the John Hancock Life Insurance Company we had 1,800 loans. We had grown, by late 1955, to some 3,300—but were still well below the point where we could economically install tab equipment.

But we found that by employing an IBM service, having this organization process our cards, the program would be feasible. More of a problem, however, was the smooth transition.

We wished to take the new system one step at a time, to insure that there would be no mix-up and that our small staff would be able to make the change-over in stride. As a matter of practical logic, we felt we should begin with the change in our form of journal, designing if possible a journal which could replace our old book forms and be used in any of three ways:

1. By hand, as in our previous methods

2. On a typewriter if desired
3. And, finally, on the tabulating machine

The Kant-Slip forms we adopted fit this need well. They were similar enough to our old sheets so that the girls could adapt immediately to using them by hand, and yet they also could be typed, and were made to fit the IBM tabulator eventually.

When we made our first move to use the tabulator, it was on only a part of our payment records. Those including escrow accounts, about 750 of the 3,300, were omitted because escrows are customarily adjusted at the end of the year. Since the first cards were not to be punched until late in 1955, we decided to hold off on the escrow accounts until January 1956, after adjustments had been made—thus obviating the need for punching completely new cards after a month or two.

This split in our records was easily handled, since the basic forms were the same. Journals on the 750 accounts were simply kept separately, handwritten.

Now that the program is fully installed, we have a highly efficient system which caused no upset in methods as we changed to it. As a new mortgage loan account is opened, the IBM service bureau punches a card for it and also prepares a customer account ledger—a permanent record showing the 36 payments of the loan term. Then, as payments are recorded in the journal, a clerk simply rubber-stamps the date opposite each entry, as compared with the old method of making a complete entry each month.

Meanwhile, the master punched cards are handled in fundamentally the same way as we used our old cashier's cards, except that when they are matched up with checks they are pulled from the file to be sent to IBM for processing.

At the end of a day, or two days if the load has been light, the checks are totaled and then delivered to the service bureau.

By opening time next morning we have back a new set of cards showing the latest payment entered. These are posted to the permanent record simply by rubber-stamping the date and then go back into our master file in alphabetical order, having been sorted by machine—saving our girls a considerable amount of work in sorting alone.

Individual account ledger is also prepared on tabulating machine, with all 36 payments entered when account is opened. As each payment is received, a clerk completes entry by rubber-stamping date next to other information already appearing on ledger.

Specially designed marginally-punched forms for use on tabulating machine were first used for handwritten payment journal in gradual transition to mechanized accounting at Glenn Justice. Following change-over of most accounts, those involving escrows were kept on handwritten basis until end of 1955. A clerk is shown writing entries on escrow payments received.

Meanwhile, all cards going through this record process serve as the medium for making our payment journal with the specially designed forms. The cards are put through the tabulating machine which produces a "proof" on the journal form.

In one phase of the operation alone, the preparation of the journal, we have estimated a saving of four hours and twenty-four minutes' working time every day. Sorting the cards, now done by a mechanical sorter, used to take fully two days a month. Posting permanent ledgers was also a time-consuming task.

Our goal, of course, is to have all payments in near the first of the month, in which case we would have no problem but to have our girls pull the entire batch of cards and send them to the service bureau. While this is perhaps a Utopian idea, we feel we can come reasonably close to it, and the closer we get, the simpler the process becomes.

Meanwhile, we have what appears to be the most efficient possible system achieved painlessly. During the development period, we worked every possible "bug" out of the punched-card operation, so that it was perfect by the time we had to depend upon it fully.

The change-over could have been completed in three months, though it took longer because of the delay for adjustments in the escrow accounts. Now, having taken care of our payment accounts, we are proceeding with another step toward mechanization — converting our tax records to punched-card accounting, with the help of specialized printed forms.

In this as in the payment journal program, simplicity, flexibility and gradual change-over will be the guiding principles—the only principles on which a small organization such as ours can afford to base a mechanized accounting program.

President's Page

DIRECT LENDING IS NO IDLE THREAT

POSSIBLY everyone who has been in the mortgage business these past ten years has, at some time or other, seriously contemplated the possibility of a giant direct federal lending program in our field. The constantly changing patterns of government participation in housing and housing financing have made such a program a threat at times. At other times, the possibility has receded into the background. Direct lending did materialize, on a limited scale, in the VA program but it has gone no further than that.

Today — when certainly the logical conclusion would be that there is less excuse for proposing direct federal lending in the mortgage field than ever before —the danger of just that seems to be actually more threatening than ever before. Direct government mortgage lending would logically result only if the private mortgage industry was failing to do its job. This, of course, isn't true—in fact, just the reverse is true. There is ample mortgage money available for all legitimate needs and the prospects are that there will be adequate funds in the foreseeable future.

Lindell Peterson

Yet, despite this, direct government lending is now being proposed more seriously than ever before. Senator Lehman of New York has introduced two housing bills, which, among other things such as 40-year mortgages, call for setting up a National Mortgage Corporation with "authority to make and service mortgage loans." This legislation professes to be an attempt to "solve" what is called the "middle-income" housing problem; but however its sponsors or others regard it, the outcome would actually be an important step in the socialization of mortgage lending.

A significant fact about this proposed legislation is that it has important Democratic sponsorship in the Senate. Even so, there is little chance that it will become law. Whatever housing legislation is enacted this year probably will follow the pattern of the Administration's own proposals. But what seems highly significant for the private mortgage industry is that an influential group of legislators in the Congress are seriously proposing legislation calling for direct government lending—and it is a signal for every private mortgage banker to pause and reflect on the disastrous results when, as and if something of this sort should materialize.

Of course, the unsound legislation we are confronted with this year isn't confined to the Lehman bills. Other bills equally unsound seek to regulate discounts in a manner which appears entirely impractical—including those to eliminate or reduce the effectiveness of the VHMCP, to greatly liberalize FNMA and to continue VA direct lending on an expanded basis. In my appearances at local and regional mortgage meetings over the country I have called attention to the logical and business-like solution which would be to free the FHA and VA interest rates to move as other money rates do. Whether the government or Congress would have the courage to take such action is something else.

In no area of activity have government and private enterprise acted in concert more efficiently than in making FHA and VA the success they have been. These are the best examples we have in the past 20 years of government and private enterprise working well together to achieve mutually-beneficial goals. These have been sound accomplishments with tremendous benefits to the economy. But, apparently with some, this has not been enough—judging from the type of legislation being proposed today.

At the moment, more pressing legislation absorbs our attention, but it is well to keep in mind that the old bogey of direct lending is still alive.

Lindell Peterson

PRESIDENT
Mortgage Bankers Association of America

HOW TO GET A CHURCH LOAN

- WHAT TO KNOW
- HOW TO DO IT
- THE PITFALLS

By **WILLIAM R. MEIER**

Underwriting Department, B. C. Ziegler and Company, West Bend, Wisconsin

THERE'S nothing more fundamental to our American way of life than the church. America had its beginnings in freedom of religion, and from the first, churches have played an important part in the growth of the United States, and the family lives of all Americans. All over the world, the United States is known and envied for its fine church buildings.

Each day, through all media of communication, whether by letter, telephone or in person, come the many inquiries pertaining to loans for churches and other non-profit institutions. The various letters of inquiry are in all shapes and sizes and vary from one- and two-page letters to a complete brochure. A large percentage of these inquiries do not contain sufficient information to properly and efficiently evaluate the merits of each loan. It has been our experience that the applicant, whether he be pastor, chairman of the board of trustees, chairman of the finance committee or just an interested layman, has had no previous experience in obtaining a church loan. This everyday problem which we shall endeavor to answer in subsequent paragraphs brings us to the question: how to obtain a church loan.

>> OBTAINING THE LOAN: A large number of churches in America, regardless of denomination, are today faced with the problem of providing adequate religious facilities. These churches are not able to raise the entire amount of funds required to complete a building project; therefore, additional funds must be arranged through a long-term loan. Prior to obtaining a loan, the church organization must determine an answer to these questions: How much will the new building project cost? How much will the church have in available funds for the building project? How much can and should the church borrow? What are the plans for the repayment of the loan?

The first question asked of all prospective borrowers is "What is the purpose for a loan to your church?" Churches are primarily in need of funds to pay part of the cost of completing new construction.

How much does the church wish to borrow? Before this amount can be determined, the church should receive from the architect who is designing the new building the estimated cost of construction. The difference between the estimated cost of construction and the aggregate of funds on hand available for construction including anticipated building fund payments to be

1. NAME, ADDRESS AND RELIGIOUS AFFILIATION.

2. AMOUNT AND TERM OF LOAN: *$150,000* to be amortized over a period, not to exceed *15* years.

3. PURPOSE: To provide a part of the funds for the construction of *a new church* estimated to cost *$350,000.*

4. FUNDS PROVIDED BY THE BORROWER:

a) Already paid toward construction	$ 65,000
b) Cash and Investments available	$110,000
c) Anticipated Building Fund Pledges payable during construction period	$ 30,000
Borrower's equity money	$205,000

Building Fund Campaign in *October, 1954,* resulted in *$100,000* of pledges to be payable over a *three-year* period. Approximately *$35,000* of pledges have been paid to date.

5. PROPERTY VALUATION:

Land	$ 30,000
Existing Buildings	$275,000
	$305,000

6. MEMBERSHIP:

	1	2	3	4	5
Number of Families	300	324	359	376	400
School Enrollment	125	140	160	172	180

7. FINANCIAL:

Attached are financial reports for the last five years showing the cash receipts and disbursements for all the major funds. (Current, Benevolence and Building or Expansion Funds)

Financial reports reflect the ability of the borrower to raise money and provide the lender with information to prevent the borrower from incurring indebtedness beyond his ability to repay.

8. VISUAL AIDS:

Pictures of the principal existing buildings and a sketch of the proposed new construction.

received during the construction period would be the approximate amount of the loan. A good rule-of-thumb to follow for both the borrower and the lender would be that the loan should not exceed 60 per cent of the cost of the building project and not more than 50 per cent of the value of the entire plant, including new construction.

When a church is seeking a loan, the prospective lender will always ask about its financial status. The financial statements showing the cash receipts and disbursements for all the major funds (current, benevolence and building) for the last five years will provide the lender with a part of the answer as to the ability of the borrower to raise money. Many religious and lay leaders are of the opinion that if the total receipts and disbursements of the church organization are about equal, the organization should be able to obtain a loan without any difficulty. However, this is not the case, as financial statements reflecting the above condition may not indicate the true ability of the church organization to retire a long-term loan. Prior to starting any building project, the members should initiate a building fund campaign to provide a reservoir of funds for the building project. Members should be informed that their interest in contributions and gifts to the building fund must not wane until after the project is constructed and paid for. The urgent need after the building project is completed is for sufficient funds to meet the required principal and interest payments of the loan.

» LOAN INFORMATION: In applying for a loan, the borrower should include all items of information which, in his opinion, tell the story of his particular building project. Set forth at the left in outline form are the essential items of information which should be included with all loan inquiries.

Upon receipt of the above information, the lender can promptly and efficiently furnish the borrower with the necessary loan information required for the new building project. The amortization of the principal amount of the loan, the rate of interest and the approximate date the borrower will need funds are a few of the details to be consummated with the borrower.

The borrower and the lender must always have complete confidence in each other's integrity in order to execute the loan.

» GOOD NEWS OF TITLE I: Borrowers of home improvement loans insured by FHA are doing a 400 per cent better job on their monthly payments than they did five years ago. For a 14-month period ending June, 1951, the claim ratio against the 1950 reserve for such loans was .25 per cent. For a similar period ending September 1955 it had dropped to .06 per cent.

Chief reason advanced for the better credit showing is that during the last few years about 2,000 operators, dealers and salesmen — the "suede shoe boys" (FHA's term for them) — who had been victimizing the people, have been barred from using the program.

Another reason advanced is the co-insurance provision added by 1954 legislation. The lender of home improvement funds insured by FHA now is obligated for 10 per cent of the amount and FHA for the remainder. As a result of this 10 per cent involvement by the lender, there has been a closer screening of applicants for loans.

Although these figures relate to claims, FHA also reported an increase in Title I recoveries of past due accounts. Recoveries for the last six months of 1955 rose 32 per cent over the similar period for 1954—$5,000,000 as against $3,800,000.

Voice of the Home Office

The Plans—Specifications Snafu

This home office official makes the pertinent point that it looks as though some correspondents don't look at the plans and specifications very carefully—and trouble begins.

SUBMISSION of applications has been discussed several times in these columns. All of us would like to reduce as much as practical the quantity of material supporting an application. Quality is also an important consideration. I have in mind particularly plans and specifications for applications on proposed residential construction.

Plans and specifications should describe the improvements to be built. If these documents are prepared as they should be, there will be but little if any misunderstanding between the owner and the builder.

Apparently, in many cases, the correspondent doesn't spend much time examining the plans and specifications but submits to the principal pretty much as received.

I have seen many sets where the plans may provide for one type of exterior wall and the specifications for a different type of exterior wall, and many other contradictory provisions.

Omissions can be troublesome. Some of the most common are inadequate descriptions of the heating plant, wiring, decorating, bath fixtures, grading, seeding or sodding, and landscaping.

The use of mass-produced plans is quite common. Because the owner or the builder frequently modifies these, it is sometimes impossible to determine even the dimensions of the house. The modifications, too often, are not clearly shown. Some plans and specifications have no identification with the application. There is no builder's name, owner's name, or location.

Plot plan, showing lot dimensions, setback, and side yards, should always be included; and a heating layout is most desirable. The latter is frequently omitted; the former quite often is just a rectangle with no house and no dimensions shown.

Because plans and specifications are a part of the building agreement, they should be complete and accurate. They should contain sufficient allowances for items such as finish, hardware, light fixtures, etc., and they should have the legal description on them. Each sheet of plans should be signed or initialed by the owner and builder, and the specifications should be signed by both the owner and the builder.

True, in most cases, in spite of some incomplete and inaccurate plans and specifications, the builder completes to his understanding and the owner receives to his understanding. However, many delays in processing and many misunderstandings between owner and builder can be avoided if the correspondent will make a greater effort in upgrading plans and specifications.

Too Little Attention to Details

A lot of things are bothering this home office man: data on FHA's omitted, late with collections reports, etc.—and all together they add up to an inefficient operation.

CORRESPONDENTS should always see to it that their submission papers are in good order. One case will come in with the application at the top of the group; another will have the commitment and another the credit report. There seems to be no set system. If these instruments are assembled the same with each loan, it means the investor can process the business faster. The sooner this can be done, the quicker payouts can be made. Pay out? Isn't this music to the ears of most servicers?

Some of the information required by FHA is omitted from the papers. When this happens, inefficiency begins. For example, special taxes are not given or a mortgagor's liabilities on the financial statement do not correspond with that shown on the credit report. Many employers do not complete this verification of employment report. We cannot tell whether he deliberately refuses to do so or it has been overlooked. It is up to the servicer to see that this instrument is completed. If the employee will not give this information, it should be stated and other means used to get it if possible.

The home office sometimes wonders whether the servicer is really taking time to explain carefully the provisions of the loan. Many prospective borrowers are more or less indifferent and do not care whether they understand all of the provisions just so they can get in the house as quickly as possible. Plenty of time should be taken to explain to the prospective borrower all the requirements and conditions of the loan. It isn't what a person says that causes trouble in the future—it is what he doesn't say.

Sufficient time isn't given to collec-

tions. The servicer should emphasize the importance of making the payments on the first of each month and that does not mean the tenth or fifteenth. Read the provisions of the note to them. Sometimes it makes an impression. The writer has been guilty of saying to the mortgagor, "Oh, the payment is due the first of each month but you can pay it anytime during the month." This is *inviting* delinquencies. Why help them to become careless? One should encourage the mortgagor to make extra principal payments. You may be surprised at the number of people who can and will. Frankly, how many people did you ask last year to do this?

If a number of payments are made in advance the mortgagor has a better chance to weather any contingencies which might arise. This business of getting a home paid for is serious; every servicer can render a great service to his people by urging them to make every effort possible to cut the loan down rapidly. Some will say, "Oh, yes, but I will lose a little servicing." This is nothing compared to the extra work you might have dealing with delinquencies.

The home office should be advised of any case which might go into default. If a mortgagor is having too much trouble and is continually running behind with his payments, he should be urged to sell the property and retire the loan. There is absolutely no use in spending too much time with a man if the odds are against him. However, the handling of a loan from the time the application is taken until a loan is paid means constant contact with the mortgagor. One has to display personal interest in the family and sell them on the idea that you are willing to do everything possible to make paying of this mortgage a pleasure rather than a handicap. In our eagerness to do business, we often throw caution to the wind and make a loan which is detrimental to both the servicer and the home office. If it is not good business for all concerned, it should be rejected.

Too many servicers are sending in their collection reports too late in the month. Most servicing contracts call for collections by the twentieth of the month. Some run the full month and some run into the next month before payments are made.

Many people are becoming second owners of property when they could not pass as the original mortgagor. In other words, their character, their job and their finances, would not qualify for a first class borrower. Whenever possible, the servicer should avoid turning such a case over to the investor. This is, in most cases, hard to control. A second mortgagor of this caliber is giving the investor plenty of trouble and he will continue to do so. Everyone concerned should eliminate him whenever possible.

You, as a servicer, are in a wonderful business. You are giving service to the best people in the world. We want to make your work as easy as we can. Do not hesitate to write us. Bawl us out once in a while if you think it is necessary. We are human and make mistakes.

Voice of the Correspondent

Home Office "Deadwood" Problem

Translation of "deadwood:" home office personnel not too well equipped for their jobs. This correspondent, at least, has encountered it and he relates his experience.

OUR principal outlet is a large company, but not a giant; therefore, the personal touch can be retained. We have reached the point that we know pretty well what our principal wants. This has had the effect of our trying in every way—with their sharing their knowledge and information with us—to get them better and more lucrative mortgages. We have succeeded according to the record.

However, such was not always the case; and even today we undoubtedly still work against odds and spend too much in selling insurance companies our paper. It's probably unnecessarily costly for them, too, even though progress has been made. Some of our problems and suggestions are covered below; probably they will have value to others as well.

The insurance company lender, for some years, did not allow sufficient time for its mortgage loan supervisor to visit the field to study operations and local problems. This caused continual strain for all parties. After some years our mortgage buyer became pretty well informed in these areas and even made suggestions that opened the way to more and better mortgage loans. We were fortunate in that our major mortgage buyer was, and is, a real student of the business; and because of his ability he has undoubtedly saved his company much unnecessary cost of doing business.

His department is growing, however, and more and more he has to be away from his office. When he's not there, he has no adequate understudy. He knows this, too. His assistant is *not* in love with his job. He is *not* acquainted with our pattern of thought and, worse still, we can find little sign that he is acquainted with the pattern of thought of his chief or his finance committee. Under these circumstances we have frequently had to contact the head of the department, a man who has visited us on two or three occasions and who trusts us—yet a man who does not have the time to study our separate offerings.

The third man, or understudy of the supervisor with whom we have to deal, occasionally is arbitrary (without authority), passive (without trust), educated (but not well informed), dissatisfied with his station, but not energetic enough to prove his worth or self-confident enough to take responsibility. He is pleasant, friendly, courteous and outwardly loyal, but he just can't do the job and must be prompt in getting out of the office at 4 P.M. We have noted that others in his echelon seem to have the same traits.

We have studied our local conditions and arrived at the conclusion that certain types of income property loans were going to become available in some quantity and that, by setting a policy, we could get them on a sound and profitable basis. Prompt decision and firm approach was needed. With only an understudy or an uninformed company officer available at the home office we have been informed that the finance committee would never buy such loans. This has happened in many classes of loans. Later we have talked this over with the informed personnel and found an interest if such mortgages were still available. On other occasions, we have been asked for such loans two years after we had made a tentative offer. The loans were no longer available. We have not been guilty of presenting insufficient information and the offerings did become standard paper elsewhere.

Now this seems to indicate that the companies in question are weak in several categories. There is lack of organization, an indication of an unwillingness on the part of the uninformed to become informed, and an indication on the part of the informed to fight for their position. It further indicates that some finance committees are apparently more interested in maintaining the record for producing ulcers than in finding new men and backing the veteran mortgage department personnel in their sincere efforts to improve controlled quantity, quality and yield in their product.

All these things are costly to the home office as well as the correspondent.

In this day of rising costs and greater amount of detail (both of which gain ground each year in spite of the studies of "efficiency experts" with the larger institutions) it would seem these institutions would consult with the specialists in the department and perhaps with their correspondents in the field and realize that *people* do the job—if a good system is used, while a good system without good people never has worked. If this were done some "deadwood" would have to go. There are good young men coming out of the universities now. They can be brought along; without them the best systems will break down.

I shudder to think of a repeat of a situation that occurred a few years ago when the top two men in the mortgage department of one lender were offered top jobs in other companies and left within six months of each other. We were three years getting back on the right track with that company even though our loans had always met with favor by their loan committee.

If we want to reduce cost in the correspondent's shop and the home office (and I believe we must to survive) then, at both ends, let's get rid of the junior pensioner, the misfits and the lazy. It's easier for the home office than for us, for they can afford to offer an educated man inducements that we cannot offer for years after a man has been with us.

More study of the local scene, more trust in the supervisor (and hence the correspondent) will cut costs and improve the quality of the loans. It's time to quit trying to run the mortgage departments as if they were a policy-writing pool with a few well paid people and the rest trainable to the limited job in 30 days.

Unless real study of the local scene with an attendant improvement in underwriting practice is attempted within a short while, the federal savings and loan associations will take over the home loan field. Some of them undoubtedly strayed from sound practices but, on the whole, the bigger and better managed ones have established policies and tried them long enough to prove that they are professionals of the top caliber. They know the local scene, and pick the best loans from under our noses because of a willingness to shift rapidly with the times (either way) and to move rapidly on the individual loans.

I believe that the day may come soon when a study of the home office personnel as well as the correspondent must be made; and after the study, I think that many a home office mortgage department head and his well-trained supervisor and managers will be relieved of the burden of carrying basically unsound help.

We believe, too, that if we correspondents are not alert, energetic and students of the absorbing subject of mortgage lending that some home office mortgage departments will be able to do without us as well.

Conference at SMU

GREAT economic stability in the center of considerable uneasiness—that might have been one way to phrase the theme of what was said at MBA's newest venture in meetings, the first Senior Executives Conference at Southern Methodist University in Dallas. Prosperity remains high, almost baffling the most optimistic. After looking closely at individual sections of the economy—while there are some weak spots of course—the overall conclusion has to be that our economic structure rests on a sound foundation. All this is true despite the fact that a certain uneasiness does exist. Some of it can be pin-pointed in our own economic sphere—so said many of those who addressed the new SMU Conference.

It was an excellent meeting, an "economic retreat" patterned after the MBA-NYU Conference held every January for the past 11 years to give those at the management and administrative level in mortgage lending institutions an opportunity to get together and study the broad basic trends in our economy so that they will better understand—and be better equipped to act upon—the every-day decisions of their business. Eighteen states, the District of Columbia and Hawaii were represented in the registration which was limited, just as it is at NYU, to give all who attend the opportunity to fully share in the discussion.

A few of the significant observations:

The very easy credit terms now available for financing housing could be cheapened even further to provide for an even greater volume than we are now doing—but the result would be to starve the capital needs of other areas of economy and thus cripple economic progress, **Robert B. Patrick,** financial vice president of the Bankers Life Company, Des Moines, said.

"The total supply of funds, that is savings, available to the capital market for investment, is determined to a large extent by the willingness and ability of people to save. Their savings flow into the large financial institutions and are invested by them. The distribution of these savings between the various types of investments is largely determined by the comparative yields obtainable.

"The supply of savings for mortgages may appear to become tight as a result of national monetary policy. But in this kind of situation it is not savings but credit which is tightening. The supply of funds for mortgages can also become tight even when the total supply of funds is increasing and when general monetary policy is unchanged. When a narrowing of the spread between yields on top grade securities and mortgages occurs the supply of funds can shift away from mortgages rather quickly, and this has happened in the recent past when interest rates on VA and FHA loans were maintained on an unrealistic basis.

"Often, the grumbling that is heard from mortgage men that mortgage money is tight has no basis in fact. What is happening in these situations is that investors find that yields on securities are more attractive than yields on mortgages or that various portfolio management considerations make other investments more desirable.

"Perhaps equally important in making the supply of funds for mortgages seem inadequate are the very easy terms permitted by VA and FHA regulations. Under these terms the demand for housing is greatly stimulated—over-stimulated in my opinion. As a result, I am convinced that there would never be enough savings to supply the capital needs of our economy and at the same time finance all the attractive homes that people are able to buy on easy credit.

"I believe that housing credit can be cheapened to the point where an even greater volume of housing than the current one can be financed, constructed, and sold very easily. But the result would be to starve the capital needs of the rest of the economy and to cripple economic progress. And even in a situation such as this mortgage borrowers would probably complain that mortgage funds were scarce. The supply of savings is not enough to provide for the over-stimulated demand of the mortgage market and the legitimate needs of other sectors of the capital market.

"The capital market is not a free market and it has some other rather curious aspects. It has long been compartmentalized, but, with high taxes making tax exempt securities very attractive to other investors, its various compartments are becoming more fixed. Thus, it is more difficult to keep investible funds moving freely from one sector of the market to another. Also, direct government lending of various kinds and administered interest rates have introduced rigidities into the market. Thus, the free flow of funds is influenced by government fiat. Funds flow into a sector if the administered rate is attractive but stop abruptly otherwise."

The most potent political factor in the American economy today is not fear of further inflation but concern over the possibility of a depression, **Dr. Arthur M. Weimer,** Dean of the School of Business Administration of Indiana University, declared.

"The most important political factor affecting the American economy and the money supply is fear of depression. Neither party can afford to be charged with a depression. Either will undertake heroic efforts to avoid depression or even significant recession," Dr. Weimer said.

"The lesson of the early '30's has been learned well by Republicans and Democrats alike. A depression that can be charged against a political party is a liability requiring at least a generation to overcome.

"Thus fear of depression is a guiding force for both parties. At the same time neither party wishes to be known as the party of inflation. It would appear, however, that fear of depression far outweighs fear of inflation. As a result both major parties can be classed as favoring mildly inflationary policies.

Dallas is pleased to welcome this conference, President Willis M. Tate of SMU told the Conferees. With him were R. B. Patrick, MBA President Lindell Peterson, Mayor R. L. Thornton of Dallas, and Dean Laurence Fleck. Dean Fleck, right, tells the objectives and purposes of the meeting. With him, Carey Winston, Chairman, MBA Educational Committee, MBA Vice President John F. Austin, Jr., Dean G. Roland Collins of NYU, President Tate, Mr. Patrick, and MBA President Lindell Peterson.

"A second major political factor affecting the American economy and the money supply is general acceptance and belief in the long term growth potential of the American economy. Hence, policies that tend to stimulate economic expansion are favored as against policies that may retard economic growth. No major political leader today subscribes to the idea that the American economy has reached maturity. Such ideas were fairly widespread before World War II. Few consider them seriously today.

"Long term growth rests on rising productivity for the American economic system. In recent years the productivity rate has risen rapidly and has been a significant factor in restraining inflationary pressures. Indeed, the money and credit supply must expand as rapidly as economic output or gradual deflation would result. Thus, it would appear that the mildly inflationary positions of both political parties fit well into the belief that the economy will enjoy long term growth and expansion.

"In terms of more immediate considerations, it must be recognized that 1956 is an election year. Furthermore, it is an election year in which the administration is controlled by one political party and Congress by the other. This means that the proposals of the administration and of Congress must be weighed carefully in the weeks ahead. It may not always be clear whether they are being put forward seriously or for the purpose of gaining political advantage through a veto or an adverse congressional vote.

"Such issues as tax cuts, a balanced budget and the farm problem will be given special attention. A tax cut, while politically popular, probably must be purchased at the price of an unbalanced budget. Thus, if one party could, at the same time, get credit for a tax cut and be able to charge the opposition with unbalancing the budget it would put itself in a strong political position.

"Similarly proposals which may appeal to the farmers but which would be extremely difficult to administer may be put forward in the hope that they will be killed by the opposition.

"In terms of recent monetary and credit policies both parties have demonstrated their great fear of recession. The current administration in recent years has eased monetary and credit policies to prevent recession and tightened them to prevent unsound and too rapid expansion. Indeed it may almost be said that monetary and credit policies are tight in the odd numbered years and easy in the even numbered (or election) years. Whether this pattern will be repeated in 1956 is not clear, but events in recent weeks suggest that it will."

(Continued on page 59)

Conferees at luncheon: Donald H. Richardson, Washington, D. C.; Richard J. Giddings, Modesto, California; W. W. McAllister, Chairman, Federal Home Loan Bank Board, Washington, D. C.; Einer P. Juel, Council Bluffs, Iowa; Butler Jack, Jr., Sacramento, California; Lewis O. Kerwood and Frank J. McCabe, Jr., of MBA; and J. R. M. Wilson, Tuscon. Right: T. A. Robinson, Houston; A. S. Buckner, J. W. Jones, Herman van Maanen, and J. DuVal West, Dallas; Ames L. Gill, San Antonio; and Edward W. Osmus, Chicago.

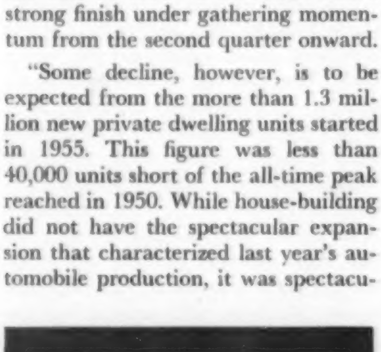
Conference i

THE news about the mortgage business, as MBA opened its 1956 series of meetings with its usual Midwestern Mortgage Conference in Chicago, was both pleasant and unpleasant. Pleasant because the tight money conditions which had prevailed through 1955 had begun to ease; unpleasant because, in this election year, some pretty unsound proposals were being offered as to how far the government ought to go in providing easy credit in the mortgage field.

MBA President Lindell Peterson reflected both points of view:

"What we may have in the making is a year in which house-building activity is patterned a good deal along the lines of 1954—a slow start and a strong finish under gathering momentum from the second quarter onward.

"Some decline, however, is to be expected from the more than 1.3 million new private dwelling units started in 1955. This figure was less than 40,000 units short of the all-time peak reached in 1950. While house-building did not have the spectacular expansion that characterized last year's automobile production, it was spectacular enough to involve us in some degree of market adjustment.



THEY WERE THERE: MBA Assistant Secretary and Treasurer Frank J. McCabe, Jr. and Walter C. Kautz, The Ohio National Life Insurance Company, Cincinnati.

"To my mind a short period of breath taking will not be a bad thing. It will relieve the pressure on the materials supply and materials prices. It will relieve any remaining danger of credit inflation. It will—most important of all—give the market a chance to test its real strength.

"Most indications are that real strength is still present and that the volume of house buying is by no means solely a matter of easy credit. Vacancies remain low; mortgage delinquencies are low; and incomes are still rising and are bound to rise further during the year, with probably a larger share of it available for housing than was true in 1955.

"Under these circumstances, it should be possible to pursue lending polices that will contribute to the maintenance of a sound mortgage structure without running the risk of unfavorably affecting the health of the building industry. In fact, there is a closer and a more favorable relationship between sound lending and a healthy building industry than some of our builder friends seem disposed to recognize."

The tight mortgage money conditions of the past year are being relieved, President Peterson said.

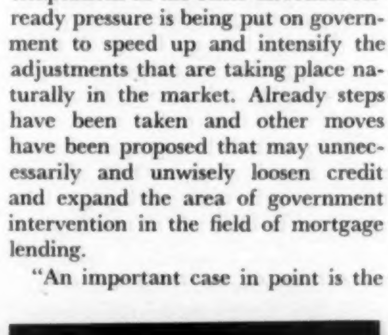
"A change is taking place in the market. The worst of the congestion that characterized the market last fall appears to be over. There is plainly less tendency to drop loans in the hands of the discount seekers. On the institutional side, there is a gratifying increase in the flow of savings in savings associations, mutual savings banks and life insurance companies. The loan pressure on commercial banks has somewhat eased, bringing about some decline in the discounts on the most recent issues of Treasury bills from the December high and at least some relaxation in the banks' attitude towards interim credit for the mortgage market.

"The average mortgage company today finds a little more shoulder room than he did three months ago, or even one month ago. He finds his principals beginning to think in terms of the future instead of merely those of cleaning up the present. Some allocations for new business are being made, advance commitments are gradually becoming available, and the prices paid for guaranteed mortgages have shown a noticeable improvement."

But, he warned, strong pressures are building up which would, in many respects, nullify the improvement that is taking place naturally in the market place.

"In this year we shall feel strong temptations in the other direction. Already pressure is being put on government to speed up and intensify the adjustments that are taking place naturally in the market. Already steps have been taken and other moves have been proposed that may unnecessarily and unwisely loosen credit and expand the area of government intervention in the field of mortgage lending.

"An important case in point is the



THEY WERE THERE: W. W. Wheaton, Galbreath Mortgage Co., Columbus, Ohio and Thomas J. Murray, New York Life Insurance Co., Chicago.

in Chicago

It was the starting point for the nation-wide series of regional meetings which MBA is sponsoring during the first half of 1956. It was a productive meeting, with attendance exceeding that of a year ago. And it was a meeting that emphasized the contrasts in the industry at the moment. Business remains good, but the outlook isn't precisely what it was a year ago. One significant influence as mortgage men got together to discuss mutual problems: some of the proposed legislation directly and indirectly affecting our business is as radical as anything ever seen in the past.

exercise of direct controls over FHA insured and VA guaranteed loans. Last August the maximum maturities on these loans were shortened and down payments increased. Just a few weeks ago maturities were restored to the legal limit of 30 years, and the heat is on to get a restoration of minimum down payments.

"To my mind such moves have very little to do with the total flow of mortgage money. By the time the first action had been taken, the market had been glutted with demand and institutions were already reducing their allocations for future business. At the present time, while allocations are on the increase, it is doubtful that a sufficient change has taken place to make the new maximum effective. In any case, the lag caused by the number and length of forward commitments outstanding at any given time prevents this sort of control from having a positive influence at the moment desired. Last year's experience was only a repetition of what we should have learned from that of 1950.

"What these moves actually do is to increase uncertainty and to disrupt future plans rather than to affect current activity. They give an artificial competitive advantage to the fortunate holder of commitments at the time the control is imposed, over the operator who has been moving cautiously or is starting a new project. In the assurance that control will be succeeded by relaxation, they may cause builders to hold back projects which might otherwise go ahead were it not for their hope of a better deal ahead.

"Direct controls do not control. They simply distort. It would be much better for both industry and the public if Congress would set reasonable statutory limitations and hold to them, allowing adjustments in the market to be taken care of by general monetary controls as reflected mainly in the free movement of interest rates."

Peterson also criticized the apparent move from Washington to again make the Federal National Mortgage Association an agency for supplying liberal credit for the building and housing fields.

"Another matter that must concern us this year is what at least appears to be the beginning of a reversion of FNMA to its former character as a free-wheeling device for supplying government credit in any circumstance where the government finds private credit not to be flowing to its satisfaction. Some steps have already been taken in this direction and others are now proposed.

Conferees: Robert L. Gordon, Harry R. Moody and Philip L. Greenawalt, Brooklyn Savings Bank with, second from left, Robert K. Domer, Mortgage Securities, Inc., Canton.

"The area in which FNMA's special-purpose facilities is available has been steadily expanded since the amendments of 1954. In its secondary market operation, FNMA has now virtually put itself in the position of supplying intermediate credit for builders by providing for the repurchase, at the original sales prices, and within a nine-month period, of loans sold to it. True, the minimum penalty for the use of this provision—from $1\frac{1}{2}$ to 2 points, not including the purchase of the FNMA stock—is rather severe, but probably not enough so to render it ineffective. The administration, in its current legislative proposals, is asking authority to reduce the 3 per cent stock requirement; and there are proposals to give FNMA authority to make advance commitments as part of its secondary market function and as a means of assuring funds for FHA's lagging special features.

"As a supplemental secondary market facility, FNMA has a place in the mortgage system. As such, it can ease the jolts that usually follow the onset of a restrictive monetary policy and can assure a valuable measure of liquidity to temporarily hard-pressed mortgage institutions. But it should do no more than this and it should do it in such a way as to make it always a place of last resort.

"If this notion of FNMA's function were strictly adhered to, it would add strength and confidence to the private market but would not compete with or supplant it. To be sure, its use would be limited to situations of strain; but that is exactly what should be.

"It would, I think, not be difficult to keep FNMA in its proper area of usefulness, were it not for the circumstances I have previously described—the repeated tinkering with mortgage terms, the interference with the na-

tural adjustment of interest rates, and the ever-broadening effort to provide credit for purposes that lack appeal in the private market on the terms that the government would impose.

"Thus the protection of FNMA from misuse and overexpansion involve the same means that are necessary to maintain FHA as an effective, efficient instrument of the private market—namely, simplification of objective and abandonment of the special-purpose approach. I may also say that the only possibility of ever reducing the government liability and of transferring these agencies to private capitalization and management rests on this same base."

HHFA Administrator Albert M. Cole took out after some of these recent housing proposals, declaring that a housing bill introduced by the Democratic leadership would reestablish FNMA as a government-financed operation and authorize it to make direct home financing loans up to 40 years.

"This is no mere proposal to get the nose of the government camel back under the private financing tent," he said. "This proposal would move the camel and his whole family right inside, into the center ring."

The reference was to the Lehman bills (S 3158 and S 3159) which calls for 200,000 public housing units annually, a giant middle-income housing scheme with $1 billion borrowing authority to make direct loans, a takeover of FNMA by the government and other ultra liberal provisions.

Mr. Cole said that pressure to renew the use of public funds in financing homes will not be overcome "merely because some of us, whether we are government officials or mortgage lenders, don't want it that way. We must provide a sounder, better method of meeting our secondary mortgage market requirements."

He said such a method has been provided under the Housing Act of 1954 in the FNMA privately-financed secondary market facility, and that it is "off to a promising start and I am confident it can do the job.

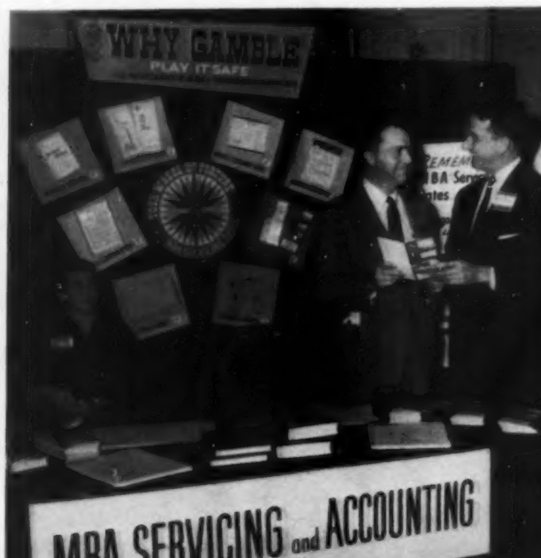
"It is very important that you understand the government's responsibility in this matter. For it is through political channels that the people test their institutions against their requirements and determine whether they want to change them."

Mr. Cole said that the government has an obligation to see that an adequate secondary market for mortgage investment is maintained in order to assure a stable flow of mortgage financing in all parts of the country to meet our home financing requirements.

He said that prior to this Administration this had been done through public credit extended by the Federal National Mortgage Association, and in five years had resulted in the government's owning more than $2½ billion in home mortgages. The President, he said, reversed this trend by setting up a privately financed FNMA facility for buying mortgages under the Housing Act of 1954.

He said that the new private FNMA secondary market program, though still new, was not needed until mortgage funds began tightening in the middle of last year. Nevertheless, he said, the FNMA has bought more than 13,000 mortgages aggregating about $125,000,000, and is currently doing business at the rate of about $25,000,000 a month.

The HHFA Administrator said, however, that the present requirement that users of the facility purchase stock up to three percent of the mort-



PHOTOS THAT NEED NO CAPTIONS: Left, the booth at the Chicago Conference where, as they have been doing at most MBA meetings in the past several years, officials concerned with the Mortgage Bankers Blanket Bond are set up to explain and discuss this coverage. Joseph Henry of Rollins, Burdick & Hunter Co., Chicago talks to H. J. Buchman, vice president, and Geo. C. Doering, president, of Geo. C. Doering, Inc., St. Louis. Right, MRA's Servicing and Accounting booth at the Conference with Director W. James Metz telling Jerry Frey of Dallas of some plans regarding the 1956 Servicing Clinics. At many of the MBA meetings this year, the booth will be set up for the convenience of members. Trips by staff members of the Department for the balance of the year are now being arranged. Members who would like a visit from one of these men to look into their servicing should contact Mr. Metz.

THE FHA AND VA SIDE OF THE BUSINESS: Traditional at MBA meetings is the panel on the insured and guaranteed loan programs. At Chicago, HHFA Administrator Cole took some whacks at congressional proposals which would weaken these programs.

THE CONVENTIONAL SIDE OF THE BUSINESS: The backbone of the business is, in a sense, being born again at just about every MBA meeting these days. It's no great surprise when one considers that there are many who have done little conventional underwriting.

gages they sell is "proving too severe a deterrent for many legitimate users of the facility."

Mr. Cole said that the FNMA secondary market facility must be equipped to "perform its function fully—not just partway."

"Our basic task," he said, "is to stimulate through private channels a consistent and steady flow of the savings of the people into sound home mortgages in sufficient volume to meet our housing requirements. Unless we do that, the alternative is to support these requirements not through the free flow of savings—but through the forced flow of taxes by means of government funds.

"We have consistently rejected the latter course in this country."

The change in the mortgage market is real, in the opinion of George W. Mitchell, vice president of the Federal Reserve Bank of Chicago. He said:

"During the past year, mortgage markets have tightened appreciably. In part, this was a result of a more restrictive credit policy. The Federal Reserve did not actually reduce bank reserves during the year; in fact, reserves expanded slightly from the end of 1954 to the end of 1955 as a billion dollar increase in Federal Reserve credit more than offset currency and other drains. But pressure was maintained almost continuously on reserve positions, as the demand for credit exceeded the available supply. In addition to the tighter credit situation generally, however, mortgage markets reflected a serious imbalance of demand and supply internally. The much larger expansion in such debt last year, combined with the accumulation of a large backlog of lender commitments in the first half of the year, resulted in an especially severe tightening in the availability of funds during the summer and fall.

"There is evidence that the mortgage market is now in the process of easing. Backlogs of commitments have been worked down by most lenders, and the net expansion in mortgage debt should be smaller than during 1955, reflecting the steadily growing repayment volume and a somewhat lower level of new building. Moreover, the inflow of savings to financial institutions ought to expand along with the higher level of personal incomes and a somewhat less intense demand for consumer durable goods. Such a trend, however, implies no specific forecast regarding the course of over-all monetary policy. Some easing in a particular credit market is perfectly consistent with an over-all situation which is little changed. National credit policy, I am sure, will continue to respond to general economic conditions, establishing a climate in which each credit using industry flourishes in step with its ability to attract resources, credit, and customers."

A slow-down in consumer spending and a drop in personal debt are two factors which Dean G. Rowland Collins of the graduate school of business administration of New York University sees ahead for the remainder of this year. For the mortgage industry, Dean Collins set forth this point of view:

"Coming to grips with the possibilities of increasing institutionalized savings that will be available to the mortgage market is the chief economic concern of the mortgage lender both in the short run and in the long run.

"The second disturbing economic concern grows out of the answer to the question of what your attitude and action should be in the middle of what may well be a continuing conflict between our government's money managers and our government agencies that try to pull the strings just so in behalf of maximum employment.

"I do not need to remind you that many social economists, so-called, feel very strongly that peaks and valleys in residential construction must be stabilized at a high level, no matter what may be the status of over-all business activity. This social point of view has adopted the concept that 1,200,000 housing starts constitute a minimum below which residential housing must not be allowed to fall. That is the new peril point in the social housing concept.

"Pursued to its full implications, this social housing concept insists that demand for housing must be kept large by government action, that the volume of mortgage credit must be sustained by government intervention even if the over-all supply of savings usable for the mortgage market drops, or if more profitable uses for such credit tends to divert it to other channels.

"Obviously, the return to the 30-year mortgage by the FHA and the VA merely boosts demand. It does not supply any new funds to the

(Continued on page 60, column 2)

Our Farm Loan Men Look at Farm Prospects

At the Farm Mortgage Clinic in Chicago they found that, based upon facts alone—and without the emotional factor evident today when agriculture is discussed—conditions in farming are not bad but they are not on a par with conditions in urban life. Significant point: prices will probably drop more before that department shows improvement. Another: interest in farm loans is increasing.

THE nation's principal economic problem—and as well as its hottest political potato—absorbed the attention of that section of the MBA membership with an interest in farm lending at the Farm Mortgage Clinic preceding the Midwestern Mortgage Conference. At the Farm Clinic the emphasis was on getting at the facts of the status of our rural economy without regard to any political motive. What the MBA farm lenders heard was that:

» The situation in which the nation's farmers find themselves today isn't going to improve much in 1956—in fact, the drop in income will even continue.

» Debt-wise, farmers are still in an excellent position

Arthur D. Weber, dean of agriculture at Kansas State College, Manhattan, Kan., sees a further drop but not of the dimensions of the 1955 slide.

"Prices farmers receive for livestock and livestock products are expected to average close to 1955 levels. This view is supported by the prospect of a continued high level of consumer demand in 1956. But crop prices will average lower, reflecting big supplies.

"Farm income is expected to decline further in 1956. Cash receipts from livestock may total as large as in 1955, but crop receipts will be held down by acreage restriction, by probable lower per-acre-yields than the very high yields of 1955, and by reduction in some support levels.

"It would appear that returns from farming will decrease further in 1956, in contrast to increasing incomes in the non-agricultural part of our economy. Of course, changes in government programs may be undertaken during the year, but it is doubtful that any new farm program could become effective before 1957."

As for the reasons why farmers find themselves in the position they are in today, Dr. Weber said:

"The rest of the economy is experiencing boom conditions while agriculture is depressed. Demand for agricultural products was strong in 1955 and is expected to remain strong in 1956. Yet our problem is one of surpluses. Why?

"Changes have taken place within agriculture during the last 30-35 years that have had as far-reaching effects as the industrial revolution had in industry. Most of these changes have resulted from improved technology and practices such as mechanization, better seeds, use of fertilizer, improved livestock, etc. This progress has occurred at the same time the rest of the economy was growing and developing. Here are some of the changes that have taken place: From 1928 to 1953 U. S. population increased one-third. Total U. S. production has doubled. Average work week has been shortened by four hours. Total income after taxes has gone up 50 per cent. Output per man hour has gone up 50 per cent. In agriculture, total farm production has increased by more than 44 per cent. Output per man hour has gone up 100 per cent.

"What have these changes meant to agriculture? The increase in population has meant an increasing market at home for our products, and increasing incomes have meant money with which to buy our products. But keep in mind that total farm production increased 44 per cent while the total U. S. population increased only 33 per cent. We have increased our production in agriculture faster than our population and markets have increased. From 1910 to 1953, our agricultural output has increased at a rate of about 1 per cent a year. Of course, during World War II, the increase was more rapid. Output since 1940 has increased by more than one-third.

"Less labor is being used in agriculture. In 1930 one farmer worker produced enough on the average to support nearly 10 people. In 1954, he produced enough to support 18 people. But these advances have increased the average investment per farm several-fold. This has accentuated the problems of the small farmer. Sixty-five per cent of the farm families of the U. S. produce only 15 per cent of our agricultural production. The U. S. Department of Agriculture estimated that in 1950 there were over one million farms and a rural farm population of over 5 million people in areas characterized as having serious low-income problems. The large investment required to expand production and increase efficiency limits the opportunities for these people to achieve a better standard of living in agriculture.

"Thus, increases in production and production efficiency are the basic reasons behind what is happening in agriculture today. That is why farm population is declining and size of farm is increasing. Kansas lost 11,000 farms between 1950 and 1954. In the same period, the number of farms in the U. S. declined 282,000. Average size of farms in Kansas increased from 275 acres in 1935 to 416 acres in 1954. During the period 1935-50, the average U. S. farm increased from 155 acres to 215 acres.

"Thus our increase in productive

AT THE FARM MORTGAGE CLINIC: A. L. Bartlett, Jr., Bartlett Mortgage Company, St. Joseph, Missouri, and last year's Farm Loan Committee Chairman; Dr. A. D. Weber, dean of agriculture, Kansas State College, Manhattan, Kan.; speaking, Dr. E. C. Johnson, assistant deputy director, Land Bank Service, Farm Credit Administration, Washington, D. C.; Paul Mann, vice president, The Fidelity Investment Company, Wichita, and Chairman of the Farm Loan Committee; F. E. Ferguson, manager, farm loans, The Northwestern Mutual Life Insurance Co., Milwaukee; and Roy C. Johnson, president, Albright Title & Trust Company, Newkirk, Oklahoma. Most members know that MBA began as a farm loan group. There has always been a farm loan committee but, recently, interest in this side of our activities has been reviving every year. The Chicago meeting seemed to indicate that there will be annual forums on farm affairs in the MBA schedule.

efficiency has required that we expand the size of our farms. At the same time, it has required that people leave agriculture because less labor is needed. For example, farm population has decreased nearly one-third since 1935."

Looking ahead to a decade from now, Dr. Weber made this forecast:

"In 1965 we will have 15 per cent or 25 million more people in the U. S. than we have now. The average work week may be shortened by 10 hours to a 30-hour week. Total U. S. production is expected to increase by 40 per cent and output per man hour may be up 30 per cent. But more important to farmers, output per man hour in agriculture is expected to be up 36 per cent. In addition, total incomes after taxes are expected to increase by 43 per cent."

It's no news to anyone that, debtwise, the farmer is in an excellent position — even better than that if conditions are compared to the Twenties when we had a collapse in the agricultural economy. But for nearly 10 years, farm debt has been on the rise.

Dr. E. C. Johnson, assistant deputy director of the land bank service of the Farm Credit Administration, gave the data about farm debt.

"Total farm mortgage debt reached the low point of $4.7 billion in 1946, and since that time has been increasing. A year ago the debt was $8.2 billion, and while no final estimates are available, apparently it is now about $9 billion. Other debts of farmers—not including loans guaranteed by the Commodity Credit Corporation — are probably around $8 billion. Therefore, total debts of farmers are approximately $17 billion. The current value of all farm real estate is about $97 billion, and other assets of farmers around $70 billion. The total assets of farmers therefore approximate $167 billion. From these figures we can conclude that debts of the farmers are only about 10 per cent of current value of the total assets. This is a favorable situation, viewing agriculture as a whole, but we must look deeper to find the true situation with regard to the burden of debts among farmers.

"About one-third of the farms are mortgaged. That means that about two-thirds of the owners of farms—while they may have other debts, in some cases of substantial amounts—are generally in a sound financial position. Of the farm owners having farm mortgage debts, it seems that, in most cases, the debts are for amounts which could be carried from farm earnings which might be expected over a period of years. However, there are many farmers whose debt load is such that they find it very difficult to meet payments on loans under present conditions of lower farm earnings. Unfortunately, this is particularly true of many young farmers, who incurred heavy debts to get started in farming and have not had time to build up substantial equities. Up to the present, however, delinquency in payments on farm mortgage loans is low, and has not increased much during the last year except in certain local areas affected by drouth or particularly sharp commodity price declines. However, if the relative low earnings continue in farming, delinquencies on loans will increase. Both lenders and borrowers should be alert to this situation and work out loan delinquency problems that arise in a manner which will protect the interest of all concerned. In the last year foreclosures on farm mortgages have increased slightly, but the number of foreclosures remains low. Many short-term debts, however, have been refinanced with real estate mortgages."

April 30 - May 1: These are Dates of MBA Eastern Mortgage Conference

As is always the case at this time of year, attention of most MBA members focuses Eastward—to New York, mortgage investment capital of the nation, and MBA's annual Eastern Mortgage Conference. And, as in the past, it will be held at Hotel Commodore, on April 30 and May 1—the Monday-Tuesday combination which has proven so popular.

With the accent on the investor point of view, this particular Association meeting attracts the highest degree of investor attendance; and this year, as always, it should be one of the most important—and successful—events of MBA's newly expanded schedule of meetings.

The program is an excellent one; it is keyed to the issues of the moment and should provide those attending with a broad view of the current status of the mortgage business.

Presiding over the three Conference sessions will be Carton S. Stallard, executive vice president, Jersey Mortgage Company, Elizabeth, New Jersey.

And at the opening session, on Monday, April 30:

Lindell Peterson, MBA President, and president, Chicago Mortgage Investment Company, will lead off with an analysis of the current developments in the mortgage field and the mortgage outlook in general.

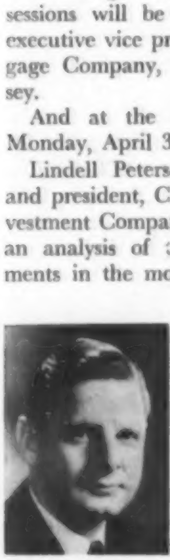
John M. Meyer, Jr., senior vice president, J. P. Morgan & Co., Inc., New York, will suggest, in his address, ways for broadening the market for FHA and VA mortgages.

William A. Clarke, president, W. A. Clarke Mortgage Company, Philadelphia, will speak on management succession in small and growing enterprises. He will, likewise, lead a panel discussion group on this topic. Participants will include, in addition to Lindell Peterson: Donald S. McGregor, executive vice president, T. J. Bettes Company, Houston, Texas; James W. Rouse, president, James W. Rouse & Company, Baltimore, Maryland; Brown L. Whatley, president, Stockton, Whatley, Davin & Company, Jacksonville, Florida; and Peter V. Cloke, mortgage secretary, Guardian Life Insurance Company, New York.

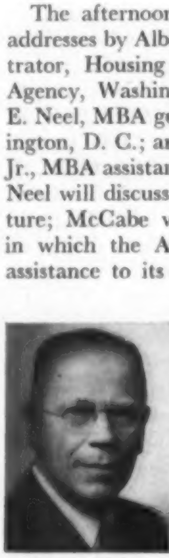
The afternoon session will include addresses by Albert M. Cole, administrator, Housing and Home Finance Agency, Washington, D. C.; Samuel E. Neel, MBA general counsel, Washington, D. C.; and Frank J. McCabe, Jr., MBA assistant secretary-treasurer. Neel will discuss the Washington picture; McCabe will discuss the ways in which the Association can be of assistance to its membership.

A panel discussion, moderated by Neel, will take up the question of insured and guaranteed mortgages. Participating in this panel group will be: Thomas J. Sweeney, assistant deputy administrator, Veterans Administration, Washington, D. C.; Charles E. Sigety, deputy commissioner, Federal Housing Administration, Washington, D. C.; Fred B. Morrison, executive secretary, national committee, Voluntary Home Mortgage Credit Program, Washington, D. C.; J. Stanley Baughman, president Federal National Mortgage Association, Washington, D. C.; Milton T. MacDonald, president, T. B. O'Toole, Inc., Wilmington, Delaware; Harry Held, vice president, The Bowery Savings Bank, New York; John H. Arrington, deputy assistant secretary, Department of Defense, Washington, D. C.

Tuesday morning, May 1, at the third Conference session, there will be addresses by the Honorable Oscar Holcombe, mayor of Houston, Texas, who will speak on the problems of building a great city; William D. Galbreath, president, Percy Galbreath & Son, Inc., Memphis, Tennessee, who will speak on urban renewal; Dr. Raymond J. Saulnier, Council of Economic Advisers, Washington, D. C., whose topic will be government policies affecting mortgage finance; and Robert H. Pease, vice president, Draper and Kramer, Inc., Chicago, who will explain, in detail, the full purpose and operation of the research and educational trust fund.


Albert M. Cole


Lindell Peterson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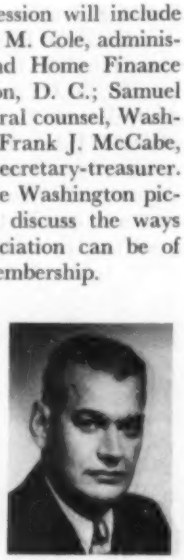
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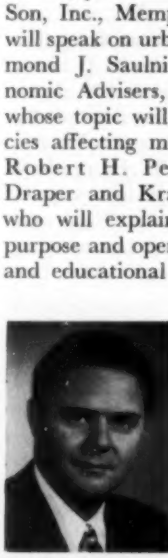
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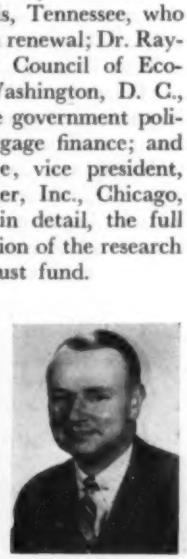

Carton S. Stallard


Brown L. Whatley


James W. Rouse


Harry Held


Robert H. Pease


T. J. Sweeney


Samuel E. Neel

YMAC Plans Round Table for Atlanta

One added feature of the Southern Mortgage Conference in Atlanta, will be a Young Men's Round Table, a discussion meeting conducted by and for the younger men in MBA. To be held Tuesday, April 10, from 8:30 A.M. to 9:45 A.M., the round table will provide these younger men of the Association an opportunity to meet and discuss among themselves those issues of particular interest to them.

Two major topics of discussion will be: "Is the production of mortgage loans a money-making part of your mortgage business?" and "What is the source of the biggest part of your mortgage loan production?"

Because the meeting is really in the nature of a mortgage "bull session" there will be no prepared speeches; and all participants will be free to introduce any questions or problems, which they might have, to the group for general discussion. All younger mortgage men attending the Atlanta Conference are urged to attend and to join in this activity.

Cary Whitehead, vice president, Boyle Investment Company, Memphis, Tennessee, and vice chairman of the MBA Young Men's Activities Committee, which is sponsoring this special program, is in charge of planning and will serve as discussion leader. Byron C. Shutz, Herbert V. Jones & Company, Kansas City, Missouri, is YMAC chairman this year.

Arrangements have been made, also, with the East Lake Country Club, to provide facilities for three foursomes of golf, especially for the younger MBA men, on Monday afternoon, April 9.

G. A. Elleby Head of Minneapolis MBA

Gordon A. Elleby, vice president and secretary, Thayer and Smith, Inc., has been elected president of the Minneapolis MBA. As vice president, the group elected Gerald P. Uttley of the Minnesota Federal Savings and Loan Association. Stanley E. Holmberg, of the First National Bank of Minneapolis, will serve as secretary; and the new treasurer is David R. Zetzman, Lutheran Brotherhood.

Albuquerque, San Francisco, Seattle; Major MBA Meetings Planned for May

May will prove one of the busiest months in MBA's line-up of events for the year, for within the next few weeks three—yes, three—major regional meetings will be getting under way.

First on the schedule is the Southwestern Mortgage Clinic, convening in Albuquerque, May 10 and 11, at the Hilton Hotel. The program for the Albuquerque Clinic is set up to provide one full session of individual addresses, with two subsequent sessions given over entirely to panel discussion groups.

Appearing on the first morning's program will be such familiar MBA figures as Aksel Nielsen, president, Mortgage Investments Company, Denver, who will address the group on the regional mortgage market; and King Upton, vice president, The First National Bank in Boston, whose topic will be the interim financing of closed mortgages and long-term forward commitments.

MBA President, Lindell Peterson, president, Chicago Mortgage Investment Company, Chicago, will summarize the mortgage outlook; John F. Austin, Jr., MBA vice president, and president, T. J. Bettes Company, Houston, Texas, will tell how to get investors to the Southwest; Frank J. McCabe, Jr., MBA assistant secretary-treasurer, will discuss the ways in which the Association is of service to the membership.

The Hon. Maurice Sanchez, Chairman of the City Commission of Albuquerque, will greet the group with an address of welcome. Paul J. Vollmar, Jr., president, Realty Mortgage and Investment Company, Albuquerque, is chairman of the local Albuquerque committee and will preside over all Clinic sessions.

At the noon luncheon of the Clinic's opening day's program, Samuel E. Neel, MBA general counsel in Washington, D. C., will deliver an address reviewing the current Washington picture. Paul J. Vollmar, Jr., will serve as toastmaster at the luncheon.

That afternoon, at the second Clinic session, the planned panel discussion will deal with servicing—in some of its most important phases. Robert W. Drye, vice president, Gulf Coast Investment Corporations Houston, will moderate the panel. Participants include:

Roy C. Johnson, president, Albright Title & Trust Company, Newkirk, Oklahoma;

Paul P. Rubicam, Anderman & Glasebrook, Albuquerque;

Carroll J. Pierce, vice president, Standard Mortgage Co., Phoenix, Arizona;

Franklin J. Briese, vice president, The Minnesota Mutual Life Insurance Company, St. Paul, Minnesota;

W. James Metz, MBA controller and director of accounting and servicing, Chicago headquarters office.

The Clinic's third session, a Friday morning panel discussion on production will be moderated by Mr. Propps. Serving on his panel will be:

Albert J. Moye, vice president, Van Schaack & Company, Denver;

Everett C. Spelman, vice president, Western Securities Company, Denver;

B. B. Bass, president, American Mortgage and Investment Company, Oklahoma City, Oklahoma;

W. M. Zuendt, president, Home Mortgage Company of El Paso, El Paso, Texas;

Harry V. Cameron, president, Arizona Land Title & Trust Company, Tucson, Arizona.

San Francisco Next

Following the Albuquerque meeting —just three days later, in fact—San Francisco will play host to MBA, when the Association holds its Western Mortgage Conference (fourth one of the year) in that city. May 14 and 15 are the dates; the Fairmont Hotel is the site.

The Conference will encompass two full days of concentrated discussion of current mortgage issues. Addresses will cover such a variety of topics as land purchase and subdivision im-

provements, interim financing, the government fiscal policy, the demands of mortgage loan investors with regard to title insurance, etc.

Several interesting panel discussions will be presented. One will deal with the mortgage loan broker's place in the mortgage business; another will explore the recurring and vitally important problem of management succession in small and growing enterprises. There will also be a round table discussion of operating and servicing problems. This will deal with a variety of topics: foreclosures, improvement of the servicor's performance, work simplification techniques, coordination between servicing and production activities, and simplified cost controls.

Specific speakers and panel participants will be announced shortly.

Of course, in addition to the above outlined topics, there will be a thorough exploration of the mortgage outlook in general by MBA President, Lindell Peterson; and a full picture of Washington news and trends, presented by MBA general counsel, Samuel E. Neel. Frank J. McCabe, Jr., of the Headquarters staff, will explain in detail the full operation and goals of the MBA research and educational trust fund.

Silas O. Payne, vice president, Marble Mortgage Company, San Francisco, is the local chairman in charge of arrangements. He will preside over the four Conference sessions.

Then Comes Seattle

Next stop on the MBA meeting circuit will be Seattle, Washington, and the Northwestern Mortgage Clinic, to be held there, at the Olympic Hotel, on May 17, 18 and 19.

Actually the Seattle dates call for two meetings in one—the Mortgage Servicing Clinic May 17 followed by the Mortgage Clinic on the two following days.

The first day of the three-day meeting will be devoted entirely to a series of addresses and a round table discussion dealing with servicing. These will include such varying aspects as management-employee relations, the use of reports, the control and payment of taxes, escrow analysis and collecting shortages, hazard insurance, and others. The round table discussion group will be composed of mortgage company and insurance company personnel and representatives of the VA, FHA and FNMA.

On the second day of the Clinic, both the economic outlook and the mortgage outlook will come up for discussion and analysis, as will the general Washington picture. Interim financing and insurance company participation in mortgage lending are included on this day's program, as is an address and panel discussion on management succession in small and growing enterprises.

The Seattle Clinic will conclude, on Saturday, May 19, with two addresses —one dealing with the MBA Research and Educational Trust Fund, the other with the role of mutual savings banks in the future of mortgage lending—and a panel discussion on the production of mortgage loans. Topics to be covered are: the originating of FHA and VA loans, soliciting conventional loans and appraising for investors, submissions, processing, and closing.

Co-chairmen of the local group in charge of program planning are Ward A. Smith, president, Ward Smith, Inc., Tacoma, and Ben J. Smith, president, Seattle Mortgage Company, Seattle.

» PRICE OUTLOOK: The report on residential property by NAREB shows that comparable or higher prices for new single-family dwellings are predicted. Relatively stable prices are expected in half of the communities of the nation, while higher costs are anticipated in another 47 per cent of the sections. From areas of under 100,000 population, 85 per cent of the returns look forward to a volume of construction during the first six months similar to or higher than that prevailing last year.

Metropolitan centers—that is, those in the population class of 500,000 or over—are expecting lower levels of new home construction, according to three-fifths of the reports.

"A third of the communities of 100,000 to 500,000 anticipate a decline, though 46 per cent predict a volume similar to 1955, and 20 per cent look forward to a rise.

"The factor of accessible land is looming larger and larger in the real estate market, as peripheral sites with access to water, sewage disposal, and transportation approach exhaustion. Around some major cities, this has already happened. Blocked by natural barriers or firmly established industrial use, further horizontal growth is impossible."

This Year's Annual Convention of Texas MBA in Dallas Will Be 40th

The 40th annual Convention of the Texas MBA will be held in Dallas, April 19 and 20. Headquarters and all general meetings will be in the Statler Hilton Hotel.

A full program of business sessions and entertainment features has been arranged. All business sessions will be devoted to discussions of problems related to mortgage financing; and speakers will be men of national prominence, all specialists in their fields. All sessions will be open to all members, their wives and invited guests.

Highlight of the entertainment schedule will be the Texas group's annual costume party—this year a "Circus Carnival," at which all guests will be requested to wear a circus or carnival costume. A nationally famous band, combined with prominent acts of stage and screen will entertain. Other events, also, will provide music by well known name bands; and throughout the Convention, special emphasis will be put on entertainment for the ladies.

Registration for the meeting will close April 16; but to be included in the printed advance registration lists, one should register no later than April 10.

Probably more than any mortgage meeting held during the year, the Texas MBA annual enjoys a distinction all its own. Attendance has long since spread far beyond the state, indeed has become almost national in character. With typical Texas spirit, each year's meeting seeks to outdo the previous one, and somehow seems to succeed. Those who haven't attended one have missed something.

California MBA Holds First Annual Meet; W. R. Bryant Named President

California MBA has passed its first milestone with a highly successful first annual convention. The conclave, held February 29 through March 3 at the Hotel del Coronado, Coronado, was highlighted by a program featuring nationally prominent speakers from all parts of the nation. Delegates were attracted from all parts of the Golden State, with officials of numerous life insurance companies also represented at the meeting.

Willis R. Byrant, vice president of the American Trust Company, San Francisco, was spotlighted in the final general session by being elected president for the coming year, succeeding charter president Urban K. Wilde, Los Angeles, manager of the mortgage loan department of Coldwell, Banker & Co. Byrant was recognized at the last MBA convention by winning the coveted Distinguished Service Award for his educational activities. Other officers elected are Gordon Stimson, vice president; Roger C. Olson, secretary, and R. C. Larson, treasurer. New directors are James P. Alger, Vaughn J. Cook and Eugene S. Cox, each elected for three year terms.

Holdover directors are John J. Lyman, E. W. Muhsfeld and Wilbur F. Warner, with terms expiring in 1957; F. H. Champlin, C. C. DeWitt, Jr. and Ewart W. Goodwin whose terms expire in 1958.

Wilde was assisted in handling the meetings by George Gummerson, general convention chairman, and Norman E. McFadden, co-chairman.

An optimistic forecast in the mortgage banking business was made by speakers representing all segments of the industry. These observers were MBA President Lindell Peterson, Chicago; William A. Marcus, San Francisco, senior vice president, American Trust Co.; Jesse W. Tapp, Los Angeless, Bank of America board of directors chairman; Robert Patrick, Des Moines, Bankers Life Co. financial vice president; Earl B. Schwulst, New York, Bowery Savings Bank president, and L. Douglas Meredith, Montpelier, Vt., National Life Insurance Co. executive vice president. Because of illness Mr. Marcus' address was delivered by Joseph R. Jones, Los Angeles, Security-First National Bank vice president.

Technical discussions of particular phases of the business were given by Lawrence L. Otis, Los Angeles, Title Insurance and Trust Co. vice president and chief counsel, and Keith W. Brownell, MAI, Glendale.

Rear Admiral C. C. Hartman, San Diego, 11th Naval District Commandant, addressed a joint luncheon meeting of delegates and their wives, outlining the impact of naval activities on the economy of California as well as describing the importance of the Navy in world affairs.

Popular features of the session's program were two panels, one on "Trends in Conventional Financing," moderated by Wallace Moir, immediate past president of MBA, and the other on "The Care and Feeding of the Young Mortgage Man" moderated by James Phelps, CMBA young men's committee chairman. Partici-

Urban K. Wilde, Los Angeles (center), charter president of the California MBA, congratulates Willis R. Byrant, San Francisco (second from left), upon his election to the CMBA presidency for the coming year. Others pictured include Roger C. Olson, secretary (left), Gordon Stimson, vice president (second from right), and R. C. Larson, treasurer, right. Below, San Diego mortgage bankers put out the welcome mat for delegates attending the convention. Among those assisting in preparations and providing hospitality for the visitors were (standing left to right) Jack W. Barnett, Ewart W. Goodwin, Edwin W. Bingham, George Randolph and Paul Gaughen, and (kneeling, left to right) Richard Cromwell, Donald K. McGowan, Henry Rasmussen Jr. and Keith Lister.

pants in the first panel were Silas O. Payne, William R. Schroll, Robert Sutro and Linden L. D. Stark. Taking part in the young men's panel were Roger C. Olson, F. K. Duhring, Guy H. Hayes and John C. Opperman.

A full program of activities for delegates wives was included in the arrangements, consisting of a luncheon, flower pageant, games and a tour of the aircraft carrier, USS Boxer.

» **BUSY MBA LOCALS:** They are more of them, and they are all more active than ever before in the mortgage business. Example: Chicago, and it's a good example because it is one of the oldest and largest MBA groups. Regularly it distributes an excellent news bulletin concerning mortgage matters, as well as special appraisal and legislative reports. It holds a comprehensive series of meetings throughout the year (next is an educational meeting in mid-April to discuss the Homeowners Comprehensive policy) as well as special appraisal and servicing clinics. Looking ahead, it is considering a public relations campaign and has its eyes on expansion beyond metropolitan Chicago to enlist more state-wide members. Its activities reflect a general trend: mortgage banking is better organized at the local level than it ever was in the past.

Gordon Stimson Heads So. Calif. MBA

Gordon Stimson, executive vice president, Wallace Moir Company, Beverly Hills, California, was elected president of the Southern California MBA to succeed E. W. Muhsfeld, vice president and treasurer, Insurance Funds Mortgage Co., Los Angeles. The Association's new officers are, left to right, Vaughn J. Cook, partner, Beverly Hills Securities Company, vice president; Mr. Stimson; John J. Lyman, loan officer, Dwyer-Curlett & Co., Los Angeles, secretary-treasurer. Elected directors were Mr. Muhsfeld; Floyd B. Cerini, executive vice president, Land Title Insurance Company; Clarence E. Joslin, Pacific Mutual Life Insurance Company; Jack R. Smith, National Life Insurance Company. Other directors elected, but not in photograph include: Frank Ely, Western Mortgage Corporation; J. R. Jones, Security-First National Bank; Guy B. Mize, The Marble Company.

New Palm Beach MBA Has Been Organized

Leeson A. Hogarth, vice president, B. D. Cole, Inc., West Palm Beach, has been elected president of the newly-organized local mortgage bankers' association of Palm Beach County, Florida. Other officers elected at the group's inaugural meeting include (seated, left to right): vice president, Charles R. Dorsey, Sr., president, Palm Beach Mortgage Company; Hogarth; secretary-treasurer, N. J. Orr, secretary, Anderson & Carr, Inc.; and, standing (left): Edward T. Hargadon, vice president, W. G. Mathes, Inc., who was elected a director. Standing, right, is A. J. Cone, attorney, who handled the group's legal details concerned in the securing of charter approval. Others, not shown in the photo, and also elected as directors, include: William Orrison, manager, mortgage loan department, Wright & Seaton, Inc., and Louis G. Moody, manager, mortgage loan department, Studstill & Hollenbeck, Inc.

N. G. Speir Is Head of N. Carolina MBA

N. G. Speir, N. G. Speir, Inc., seated center, was elected president of the North Carolina MBA at the Association's annual meeting in Charlotte. Standing, left to right: Carlyle McDowell, Wachovia Bank & Trust Co., Winston Salem, elected vice president; Hayes H. White, Stockton-White & Co., Raleigh, elected director; seated, left to right, Ike C. Lowe, McDonald Mortgage Co., Inc., elected secretary and treasurer; and Cliff C. Cameron, Cameron-Brown Co., Raleigh, immediate past president.

The annual meeting program included discussions of commitment fees on FHA, VA, conventional and construction loans, sale of mortgages to FNMA and through brokers, operations of the VHMCP, and effect of federal reserve policy. The afternoon session was devoted to servicing and related topics including handling of tax escrows and delinquent accounts and the homeowners policy.

Form Unit to Sell to Pension Funds, Trusts, Foundations and Investors

Something brand new in the mortgage banking field has developed with the organization of a new type of facility, the Investors Central Management Corporation, to make investment in home mortgages convenient, economical, and profitable for foundations, trusts, pension funds and other investors.

The Corporation will offer to investors all the facilities and functions of an insurance home office mortgage department. It will, to the fullest extent that an investor may wish, arrange for the origination and servicing of home loans by 28 mortgage companies located throughout the country. It will receive remittances on the accounts of its investor clients and transmit consolidated payments at such intervals as may be designated. It is prepared to handle all such other management functions as auditing and supervision of the morttage companies with which it has servicing contracts.

Procedures will be sufficiently flexible to permit an investor to place as much or as little responsibility on the Management Corporation as the investor considers desirable or legally possible.

At the outset, the activities of the Investors Central Management Corporation will be limited to the handling of loans insured by FHA or guaranteed by VA. The Corporation will handle all details in regard to the mortgage insurance or guarantee.

The Corporation is located at 39 Broadway, New York. Miles L. Colean, Washington economist, is chairman; Paul P. Swett, Jr., former vice president and treasurer of The Baltimore Life Insurance Company, executive vice president; Arthur W. Viner, until April 1st the secretary of the National Voluntary Home Mortgage Credit Committee, is vice president; Carl O. Olson, former comptroller of The Baltimore Life Insurance Company, is secretary-treasurer.

Directors of the new organization include John F. Austin, Jr., T. J. Bettes Company, Houston; J. Bayard Boyle, Boyle Investment Company, Memphis; Frederick P. Champ, Utah Mortgage Loan Corporation, Logan, Utah; Mr. Colean; Aubrey M. Costa, Southern Trust & Mortgage Company, Dallas; George H. Dovenmuehle, Dovenmuehle, Inc., Chicago; Stanley M. Earp, Citizens Mortgage Corporation, Detroit; Fred L. Flynn, Flynn Investment Company, Harlingen, Texas; Herschel Greer, Guaranty Mortgage Company of Nashville; Elmer H. Grootemaat, A. L. Grootemaat & Sons, Inc., Milwaukee.

Also E. R. Haley, General Mortgage Corporation of Iowa, Des Moines; John C. Hall, Cobbs, Allen & Hall Mortgage Company, Inc., Birmingham; Clarence A. Hardesty, Carroll Mortgage Company, Seattle; Charles P. Landt, Cameron-Brown Company, Raleigh, North Carolina; John A. Love, Income Investment Company, Clayton, Missouri; J. C. McGee, Reid-McGee & Company, Jackson, Mississippi; Joseph M. Miller, Miller Mortgage Company, Inc., New Orleans; Wallace Moir, Wallace Moir Company, Beverly Hills, California; Walter C. Nelson, Eberhardt Company, Minneapois; Aksel Nielsen, Mortgage Investments Company, Denver.

Also Maurice A. Pollak, Draper and Kramer, Inc., Chicago; Arthur G. Pulis, Jr., Franklin Capital Corporation, Newark, New Jersey; James W. Rouse, James W. Rouse & Company, Inc., Baltimore; Byron T. Shutz, Herbert V. Jones & Company, Kansas City, Missouri; Mr. Swett; Robert Tharpe, Tharpe & Brooks, Inc., Atlanta; H. Duff Vilm, H. Duff Vilm Mortgage Company, Inc., Indianapolis; Paul J. Vollmar, Jr., Realty Mortgage & Investment Company, Albuquerque; Brown L. Whatley, Stockton, Whatley, Davin & Company, Jacksonville, Florida; and Jay F. Zook, Jay F. Zook, Inc., Cleveland.

Harry A. Taylor, president of Frank H. Taylor & Son, Inc., East Orange, New Jersey, recently was selected as "Outstanding Citizen of the Year" by the Chamber of Commerce and Civics of the Oranges and Maplewood in Orange, N. J. Long active in the land development field and in mortgage banking, Mr. Taylor has figured prominently in the activities of real estate associations, both local and national. Currently, he is one of two U. S. representatives of the International Real Estate Federation to the Economic and Social Council of the United Nations.

Robert H. Bolton has been elected president of the Rapides Bank & Trust Company in Alexandria, Louisiana. He succeeds his brother, James C. Bolton. Joining the bank in 1932, as assistant cashier, Mr. Bolton has held, successively, the offices of cashier, vice president and executive vice president. Active in the Louisiana MBA and ABA, he is currently a member of the national MBA legislative committee.

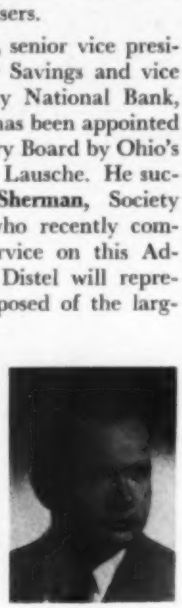
James C. Bolton, president of the Rapides Bank & Trust Company in Alexandria, Louisiana, for the past 20 years, has been elected Chairman of the Board of that Bank. Beginning his banking career in 1921, with the credit department of the National Bank of Commerce in New York, Mr. Bolton joined the Rapides Bank in 1922. He was elected president in 1936, succeeding his father, the late James Wade Bolton.

Walter B. Williams was elected vice president of the Queens County Savings Bank, Flushing, New York. Mr. Williams had been a trustee of the bank for the past 12 years. Other recent appointments included **Robert F. Wellman,** assistant vice president, to mortgage officer; and **Alexander Allison** to assistant mortgage officer.

W. C. Rainford, president of the Mercantile Mortgage Company, Granite City, Illinois, has been awarded the professional designation M.A.I. by the American Institute of Real Estate Appraisers.

Irving W. Distel, senior vice president of Society for Savings and vice president of Society National Bank, both of Cleveland, has been appointed to the State Advisory Board by Ohio's Governor, Frank J. Lausche. He succeeds **Henry S. Sherman,** Society board chairman, who recently completed 10 years service on this Advisory board. Mr. Distel will represent Group I, composed of the largest banks in Ohio.

Irving W. Distel



John D. Stiles

Nat N. Wolfsohn, president of Eastern Mortgage Service Company in Philadelphia announced the appointment of **John D. Stiles** as vice president in charge of sales. He will be responsible for expanding and modernizing the sales department. Formerly vice president of Colonial Mortgage Service Company, Upper Darby, Pa., Mr. Stiles joined the firm in 1946 and managed its North Philadelphia office from 1948 to 1954. His appointment with Eastern is in effect a re-joining, since previously he had been with the firm from 1937 to 1942, when he left to enter the armed forces. At that time, he was assistant secretary.

C. L. Hassmann, manager, real estate and mortgage loan department of Commonwealth Life Insurance Company, Louisville, was appointed a vice president. He is a graduate of the United States Military Academy and during World War II he served as an instructor in military art and engineering with the rank of Lieutenant Colonel. He joined Commonwealth in 1953.

Clyde D. Boden has been appointed director of personnel for Frederick W. Berens, Inc., Washington, D. C. He was formerly with the administrative office of the United States Courts and in the Adj. General's office in the Administrative and Personnel Branch. He is a Major in the Reserve Artillery, has a Law degree from Columbia University and a degree from Franklin and Marshall college, Lancaster, majoring in Psychology. Other appointments included Fred Osler to the conventional loan department and Robert Humbert to the insurance department. Humbert formerly was with General Accident Fire and Life.

Modern Homes Corporation announced the appointment of **William C. Buckingham** to head up their mortgage finance department. Buckingham was formerly with H. G. Woodruff, Inc., Detroit. His work with Modern Homes will entail providing mortgage assistance to dealers.

Obituaries

James K. Woodley, 53, president of Woodley & Chesterman Mortgage Corp., Richmond, died suddenly last month. A native of Utica, New York, Mr. Woodley had been with his firm since 1932. He was active in Richmond civic affairs and was a member of the American Institute of Banking.

Sam H. McDonald, 53, president of McDonald Mortgage Company, Inc., Charlotte, North Carolina, died Feb. 12, after a brief illness. Mr. McDonald was, likewise, president of the McDonald Insurance Agency, which he founded in 1932. And with his brother, J. Caldwell McDonald, he was a partner in the McDonald Realty Company, also in Charlotte.

James Emlyn Jones, Jr., 46, a vice president of Frederick W. Berens, Washington, D. C., died recently of a heart attack in Tucson, Arizona. Mr. Jones joined the firm in 1952. Previously, he had been associated with the Maryland firm of Bogley, Harting & Hight, Inc., and with the Reconstruction Finance Corporation.

LIFE INSURANCE COMPANIES EARNED 3.51% LAST YEAR

In eight years mortgage holdings have gone from 16.8% of total assets to 38.7% in 1955

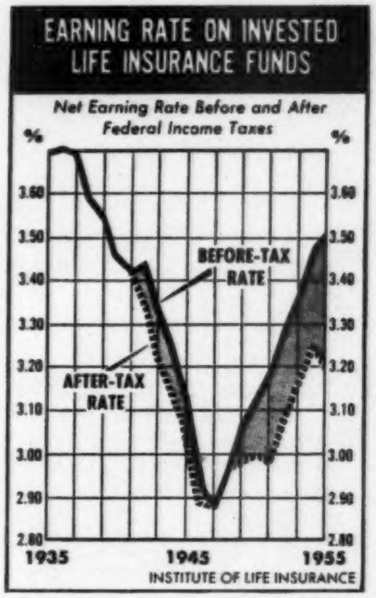
FOR the eighth consecutive year, the earning rate on invested life insurance funds, after all expenses but before federal income taxes, increased during 1955, reaching 3.51 per cent, one-fifth above the 1947 rate.

Last year's earning rate compares with 3.46 per cent in 1954 and 2.88 per cent in 1947, the lowest point in the history of the business. The current rate is still far short, however, of the level of the 1920s. With a high point of close to 5.20 per cent in 1923, the average for the 1920s was 5.07 per cent. Even in the 1930s, with a long-sustained decline in interest rates under way, the average earning rate of the life companies was 4.10 per cent.

"Actually the improvement since 1947, when the after-tax rate was practically the same as that before-taxes, is less than these figures would indicate since the effective earning rate is the net rate after Federal income taxes," the Institute of Life Insurance said. "Such taxes have increased materially in recent years. The incurred income taxes on 1955 business, on the basis of the new tax bill just passed, are estimated at $248,000,000. This compares with $174,000,000 the year before. The after-tax earning rate for 1955 works out at about 3.20 per cent, actually a slight decline from the year before, when it was 3.24 per cent."

Investment earnings of the life companies in 1955 were estimated at approximately $3,000,000,000. The extent to which these investment earnings contribute to meeting the cost of life insurance is demonstrated by the fact that in 1955 they were the equivalent of one-fourth of total premiums.

The earning rate increases since 1947 have been largely the result of the material shifts in the distribution of investments in these years. There has been some improvement in earning rates in various portfolios, but the greater part of the improvement has come from placement of larger sums in the investments which return better interest. Since 1947, the securities of business and industry held



by the life insurance companies increased from 31.2 per cent of total assets to 43.2 per cent and mortgage holdings have risen from 16.8 per cent of total assets to 32.6 per cent. At the same time, life company holdings of U. S. Government securities have dropped from 38.7 per cent of total assets to 9.5 per cent.

SMU CONFERENCE

(Continued from page 45)

Looking at the investment picture from a long-term point of view, it becomes increasingly apparent that funds available for investment are more likely to be the limiting factor in the country's growth rather than the availability of investment opportunities, **Dean G. Rowland Collins,** of the Graduate School of Business Administration of New York University, said.

"What is done artificially on the demand side of the mortgage market is basic. Obviously, the return to the 30-year mortgage merely boosts demand. It does not supply any new funds to the mortgage market. Obviously, too, if our governmental housing officials yield to any clamor to lower required down payments to zero again on government underwritten mortgages, that, too, would merely boost demand. It would supply no new funds. We will not increase the funds available to the mortgage market merely by applying a hypodermic needle to the marginal demand for 1- to 4-family houses.

"On the funds side of the mortgage market there appear to be only two significant possibilities of boosting the supply of funds.

"We can still further monetize the mortgage market by ending the resistance of the Federal Reserve authorities to warehousing arrangements through the commercial banks, by liberalizing the legal powers of the commercial banks to invest demand as well as time deposits in mortgages, and/or by authorizing Fanny May to service the primary mortgage market with the use of short-term funds borrowed from the commercial banks, institutional lenders, and the public, and/or borrowed directly from the Treasury."

The Federal Reserve Board was given high praise for its handling of the country's monetary policies, which in turn have acted as a powerful influence in holding down inflationary pressures, **Dr. Harold W. Torgerson,** professor of finance, Northwestern University, said:

"It is granted that a more liberal policy on the part of the Federal Reserve authorities could have increased the supply of funds available for mortgage loans. However, as you analyze the economic and financial trends of the past year, you can see why the Federal Reserve Board had become concerned. They have stated that the primary objective of the policies pursued was to restrain inflation. As you consider your responsibilities to help restrain inflation in the housing field, and to contribute toward a more stable general economy, you will probably support the restrictive policies that were adopted. These policies add to the problems of the moment, but we hope will be of advantage over the longer period."

HOUSING & MORTGAGES

(Continued from page 25)

governmental authorities. Recent indications are that these authorities are not in complete agreement as to what should be done. In response to the decline in starts and the uneasiness of builders the FHA and the VA restored the 30-year loan. This was met with something less than enthusiasm by the Federal Reserve Board. If the Federal Reserve Board or individual Federal Reserve Banks were to react with more restrictive credit measures, the ability of builders to get interim financing might be impaired. Likewise, if the Treasury were to come to market with a large issue of long-term bonds on an attractive basis, a substantial amount of funds otherwise available for the mortgage market might be absorbed.

However, since the present economic situation seems to me to be one of balance with the likelihood of stability or possibly slight decline (for the short run at least) being somewhat greater than a strong upward trend, dramatic restrictive action by the government in the near future does not seem likely.

This does not mean that you will have no problems. I think you will have problems but they will probably be localized. You must expect lenders to be far more selective than in the past. As home buyers become more demanding, it is natural for permanent lenders to look more critically at the real housing needs of a particular area. I think you must also expect lenders to insist on a somewhat heavier equity for loans than the minimum requirements of VA and FHA. In a market that has absorbed 10 million dwelling units since World War II, some reluctance on the part of lenders to buy 30-year loans with little or no equity is not unreasonable. We happen to feel that at a proper price and with adequate screening such loans are still a good investment, but I am sure you will encounter contrary views.

CHICAGO CONFERENCE

(Continued from page 49)

mortgage market. As a matter of fact, if this stimulation of demand on the part of the marginal home buyer should result in a significant increase in 'starts' during the next few months it could even tighten the mortgage market further.

"Obviously, too, if the governmental housing officials yield to the rising clamor to lower required down-payments to zero again on government underwritten mortgages, they will merely boost demand. Such action, in and of itself, will not supply any new funds for the mortgage market. Indeed—other things being equal—this stimulation of the demand of the marginal buyer could tighten the money market further."

PERSONNEL

In answering advertisements in this column, address letters to box number shown in care of the Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.

TITLE INSURANCE EXECUTIVE

Title insurance company has exceptional opportunity for experienced executive to head and expand its business nationwide. Must have had minimum 10 years' experience all phases of title insurance, including national, home office and field experience. Salary commensurate with background and experience. Write Box 370.

BANK AUDITOR

Approximately 10 years commercial and trust experience with sound educational background. Successful candidate will probably be between 30 and 35 years old and will have challenging future with rapidly expanding institution located in South Jersey. Modern personnel program includes many benefits. Write stating age, education, experience, salary desired, how to contact, and how soon available. Replies treated confidentially Write Box 371.

Excellent opportunity for Mortgage Executive capable of directing and supervising complete mortgage operation, with old, well established firm of exceptional financial responsibility, in one of the South's leading cities. Salary range from $15,000 to $20,000 per annum, depending on experience and ability. An attractive opportunity for the properly qualified person. Send personal history. Immediate response necessary. Write Box 372.

MORTGAGE SERVICING MAN AVAILABLE

Experienced servicing manager with eastern mortgage firm, familiar with accounting, single debit, and all operations of servicing Conventional, F.H.A. and G.I. loans for large life insurance companies who will recommend me. Write Box 373.

The Pacific Northwest